Q2 2021 Earnings Call

Company Participants

- Daniel Binder, Vice President of Investor Relations
- Douglas McMillon, President and Chief Executive Officer
- John Furner, Executive Vice President, President and Chief Executive Officer, Walmart U.S.
- M. Brett Biggs, Executive Vice President and Chief Financial Officer

Other Participants

- Ben Bienvenu, Analyst
- Charles Grom, Analyst
- Edward Kelly, Analyst
- Edward Yruma, Analyst
- Greg Melich, Analyst
- Karen Short, Analyst
- Katharine McShane, Analyst
- Kelly Bania, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Lejuez, Analyst
- Paul Trussell, Analyst
- Peter Benedict, Analyst
- Robert Drbul, Analyst
- Scott Mushkin, Analyst
- Seth Sigman, Analyst
- Simeon Gutman, Analyst

Presentation

Operator

Welcome to Walmart's Fiscal Year 2021 Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. That we may address questions from as many participants as possible, we ask you limit yourself to one question. (Operator Instructions) Please note that this conference is being recorded.

At this time, I'll turn the conference over to Dan Binder. Please go ahead, Dan.

Daniel Binder {BIO 1749900 <GO>}

Thank you, Rob. Good morning and welcome to Walmart's Second Quarter Fiscal 2021 Earnings Call. I'm joined by a few members of our executive team including Doug McMillon, Walmart's President and CEO; Brett Biggs, Executive Vice President and Chief Financial Officer; and John Furner, President and CEO of Walmart U.S. In a few moments, Doug and Brett will provide you an update on the business and discuss second quarter results. That will be followed by our question-and-answer session.

Before I turn the call over to Doug, let me remind you that today's call is being recorded and will include 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, as well as risks and uncertainties resulting from the ongoing COVID-19 pandemic.

Please review our press release and accompanying slide presentation for cautionary statement regarding forward-looking statements, as well as our entire safe harbor statement and non-GAAP reconciliations on our website at stock.walmart.com.

It is now my pleasure to turn the call over to Doug McMillon.

Douglas McMillon

As unusual and I want to thank our associates for rising to the occasion. They were adapting to changing customer needs and tackling new challenges while positioning our business for the future and we're grateful.

As I shared last quarter we're operating with a clear set of priorities to guide our decision-making through this crisis. Those priorities are: one, supporting our associates on the front lines in terms of their physical and financial well being; two, serving our customers as safely as possible and keeping our supply chain operating; three, helping others which includes hiring so many that need work, supporting our suppliers and marketplace sellers and serving the communities where we operate, including accelerating our efforts to increase fairness, racial equity and justice; four, managing the business well operationally and financially in the short-term; and five, driving our strategy to strengthen our business for the long-term.

First, our associates, they continue to be inspiring. And it has been a pleasure to visit with so many of them as I've made my way around the country visiting stores, clubs and distribution centers. During this call, last quarter we outlined a number of measures we have in place to support them and those continue. Globally we've hired more than 500,000 new associates since the beginning of the year. We've continued our COVID-19 emergency leave policy, which includes the removal of our tenants requirements related to our quarterly cash bonus program called MyShare. That enables people to stay home, if they're diagnosed with the virus or feeling sick, need to care for others or feeling uncomfortable working.

And globally this year we paid or announced $1.6 billion in MyShare and special cash bonuses to support our associates financially. After supporting our associates, our next priority is serving our customers. Consistent with our purpose, we remain committed to EDLP, ensuring the lowest prices on a basket of goods. During the second quarter, our customers were spending so much more time at home that we experienced strong sales in categories like TVs, computing and connected home. Customers also took advantage of time for outdoor entertainment and sports, which led to strength in those categories.

With significant operating restrictions for restaurants across the country, families continue to prepare more meals at home and our business has benefited from that trend. As you would expect there continues to be extremely high demand for disinfectants, cleaning supplies and paper goods. At times we saw a return of stock-up behaviors in certain food and consumable categories in specific geographies where hotspots occurred. While there is volatility in the supply chain levels, we're starting to see some categories recover in terms of in-stock.

From a seasonal standpoint back-to-school is negatively impacted by the health crisis in terms of timing and demand. We've been thoughtful in our approach both in stores and online. And we believe we're well positioned whether students or teachers work from classrooms or their homes. The third priority for us has been to help others in the communities we serve. I'm proud of the many ways we're supporting communities, including our support for food banks. This quarter through our Fight Hunger. Spark Change campaign and food donation program, we help provide access to an estimated 300 million meals for people in need.

We're also continuing our support for communities from COVID-19 testing sites with more than 420 across 33 states. Communities across America have become rightly focused on racial equity and justice, and so are we. Our work starts inside the Company with our diversity inclusion efforts. In addition, we've also established a team to look for places where we can put our core business and the size of our business to work to influence our nation's financial, healthcare, education and criminal justice systems for good.

In addition, Walmart and the Walmart Foundation have launched a Center for Racial Equity committing $100 million to fund philanthropic initiatives that complement the Company's efforts to shape the four systems, I just mentioned. Even during this crisis, the team is managing our business well in executing our strategy to build omnichannel solutions globally. In the U.S., we continue to expand pickup and delivery services, including Express Delivery with customers receiving their orders in well under two hours.

In Mexico we've now launched same-day delivery from 70% of Sam's Clubs. And in India we launched Flipkart wholesale, a business to business solution that will leverage our omnichannel capabilities to better serve kiranas and other small businesses, as our cash and carry business joins Flipkart. There is been a lot of buzz recently about membership at Walmart. We've been testing membership with delivery unlimited subscription since late last year. That Customer Officer was -- offer was limited to a grocery and consumables delivery service as the reason to sign-up. Since that launch we've proven to ourselves that we can pick and deliver a broad set of categories across the supercenter, not just food and consumables, but a wide assortment of general merchandise.

We think that assortment breadth and our ability to deliver with speed nationally, combined with a few other benefits for customers, will result in a compelling proposition. So we've been moving towards a new membership launch. We'll share more about that membership and timing when it's appropriate.

As it relates to our Q2 performance, I'll begin with the Walmart U.S. segment. Comp sales were strong again this quarter at 9.3% excluding fuel. There were several tailwinds affecting our Q2 performance, including government stimulus, more people eating at home, a focus by customers on entertaining themselves at home and investing in their homes in yards. We also had some headwinds, including reduced store hours and out-of-stocks. As the benefits from stimulus waned towards the end of the quarter, we saw a comp sales settle into a more normal range.

We're pleased with the progress we're making on walmart.com. We had really strong sales growth and significantly reduced losses. The tailwinds we're experiencing are accelerating our progress to build a healthier eCommerce business as we add new brands, improve product mix, grow the marketplace and achieve more fixed cost leverage. The stores and online merchant teams are now integrated. And we believe will benefit from that change going forward. The improvements and contribution profit and reduced operating losses are really good to see.

We've made several structural changes within Walmart U.S. during the quarter as we continue on our path to transform into an omnichannel organization. These changes were made to increase innovation, speed and productivity. This is obviously a difficult time for these associates to experience changes like this. So we're providing additional financial support and time to look for another role along with other forms to support, to make that easier than it would otherwise be.

Turning to Sam's Club where the team delivered comps of 17.2% excluding fuel and tobacco and grew membership income 7.8%. We saw improvements in member count, renewal rates and Plus Member penetration. The popularity of Scan & Go is accelerating, which is great to see. The membership value proposition is strong and the team is executing well.

Walmart International sales increased 1.6% in constant currency and 7 of 10 markets had positive comp sales. The team delivered good top line results given we faced significant headwinds from currency and the government mandated closure of Flipkart for about half the quarter, as well as parts of Africa and Central America for portions of the quarter.

Canada, China and Mexico led the way as customers choose one-stop shopping in omnichannel solutions. And India, Flipkart, we opened in mid-May, after which we saw GMV exceeding pre-COVID-19 levels. Excluding fuel, as this performance demonstrated the resilience of the business with growth in a challenging period. Profit for international was also better than we expected when you remove the effects of FX and a discrete tax item.

I'll close today once again by thanking our associates for their incredible work. Our integrated omnichannel offering continues to resonate with customers around the globe. It's positioned the Company well during this crisis, and we remain convinced that it will be the winning strategy going forward. I'd also like to mention that we'll be releasing our ESG report next week. I encourage all of you to spend time with report to better understand the incredible work our team is doing in this space.

I wish you and your family's good health and I'll now turn it over to Brett.

M. Brett Biggs {BIO 17414705 <GO>}

Thanks, Doug. Good morning, everybody. Let me start by thanking our associates for their fantastic work serving customers during this unusual time. Every day we're navigating through a broad set of challenges while positioning the company to win. I'm so proud of how the team is quickly adapted to new ways of working and respond to the changing needs of our customers.

The health crisis continue to affect shopping behavior in the second quarter with trip consolidation and larger basket sizes in stores, as well as channel shift toward eCommerce. Our results are a reminder that customers will have multiple ways to shop with us, and we're innovating and leveraging our unique assets to provide solutions for them.

Our financial position is very strong and we remain laser focused on operating efficiency, even as we have incremental COVID related cost to support associates and customers. We've maintained our strong cost culture and took recent steps to further streamline the organization to better support our U.S. omnichannel strategy.

So let's get to Q2 results. Total constant currency revenue growth was strong, up 7.5% to more than $140 billion, despite operating limitations in some markets early in the quarter. Walmart U.S. comp sales increased more than 9%; International net sales grew nearly 2% in constant currency; and Sam's Club grew comp sales more than 17% excluding fuel and tobacco. Gross profit margin was strong in each segment and increased 63 basis points for the total company, benefited by strong sales and higher margin general merchandise categories, which in the U.S. is aided by government stimulus, lower markdowns and better fuel margins. This is partially offset by the carryover price investments from last year.

SG&A was negatively affected by approximately $1.5 billion in incremental COVID related costs, about 75% of which related to associate bonuses and expanded benefits, including the recently announced third special bonus of the year. The quarter was also impacted by U.S. business restructuring costs of about $380 million in the discrete tax item. In total, these costs negatively affected expense leverage by about 130 basis points. And as a result, expenses de-leveraged by 42 basis points. Adjusted operating income on a constant currency basis was up more than 18%, and adjusted EPS increased about 23% to $1.56 versus last year's Q2 adjusted EPS. Currency fluctuations negatively affected EPS by about $0.02.

Operating cash flow to date -- year-to-date increased nearly $8 billion versus last year. Free cash flow was up more than $9 billion with higher sales, lower inventory levels continued operating discipline and lower CapEx, some of which is timing. Inventory was down about 7% year-on-year, mainly due to heightened demand. While we didn't repurchase any shares in the quarter, our capital allocation strategy is unchanged and we continue to feel very good about the position of the Company.

Now let's discuss the quarterly results for each operating segment. Walmart U.S. had a strong quarter. Comp sales excluding fuel increased 9.3% with eCommerce sales growth of 97%. eCommerce sales are strong throughout the quarter contributing approximately two-thirds of the segment comp growth. We saw significant increases in repeat rates and weekly active digital customers. And we continue to make progress on assortment expansion of seller tools with e-commerce marketplace sales growing triple digits. We're accelerating investments in omni fulfillment solutions including the continued rollout of same day pickup and delivery services to more stores, expanding store pickup and delivery slots by nearly 30% since February and permanently increasing ship from store capabilities from pre-COVID levels.

The second quarter started strong as general merchandise categories had accelerating growth both in-store and online, as government stimulus funds were dispersed. As family spend more time at home we saw strong increases in categories like home, sporting goods, landscape and electronics. Grocery sales had another strong quarter including robust growth in fresh. As stimulus funds taper-off towards the end of the quarter, sales started to normalize, but July comps still grew more than 4%. Trip consolidation continued throughout the quarter, resulting in an average ticket increase of about 27% and a transaction decrease of about 14%.

Gross profit rate was strong at 42 basis points due to increased sales and higher margin general merchandise categories in fewer markdowns. We also saw improvements in eCommerce margin rates reflecting continued progress on product mix and faster growth of marketplace sales. The carryover of last year's price investment and the temporary closures of our Auto Care Centers and Vision Centers negatively affected the margin rate. The approximate $1.2 billion of incremental COVID related costs as well as the restructuring costs, negatively affected expense leverage by about 170 basis points, as a result, the U.S. segment deleverage 41 basis points.

However underlying productivity is strong, both in physical stores and eCommerce operations. Adjusted operating income was up almost 17% for the quarter aided by significantly lower eCommerce losses. Inventory declined about 4.6% reflecting strong sales and higher than normal out-of-stocks in some categories. While we continue to make progress in our in-stock position, there are some specific areas that are still challenging. Overall, we're in a good position. As noted throughout the market, the back-to-school season is off to a slower start than usual, given the uncertainty around the timing of students physically returning to school. As a result, we expect the season to be choppy and come later than normal.

Items like laptops, tablets and home office furniture performing well, while others like basic school supplies, backpacks and apparel are understandably soft. Despite the slow start to back to school, overall U.S. comps are fairly normal range to serve the quarter. International results are better than anticipated coming into the quarter despite operational limitations in several markets due to the crisis, including the government mandated closure of Flipkart, net sales increased 1.6% in constant currency, including nearly 40% growth in eCommerce. Seven of 10 markets posted positive comp sales. Sales in Canada and China were exceptionally strong and Mexico showed solid results. Excluding fuel as the comps were also solid with online grocery growing faster than the market.

Customers are responding favorably to expanded e-commerce and omnichannel offerings, driving triple-digit eCommerce sales growth in most of these markets year-over-year. We faced extensive government mandated closures in markets like India, South Africa and Central America particularly early in the quarter. Flipkart operations were closed to run half the quarter but since reopening in mid-May, GMV is exceeding pre-COVID levels. In Africa about one-fourth of stores were closed for portion of the quarter and certain high-volume sales items were restricted. In the U.K. decreases in travel pressure fuel sales. Currency fluctuations were a significant headwind to sales, approximately $2.4 billion during the quarter.

International operating income declined about 9% on a reported basis, been increased to 11.5% on adjusted constant currency basis excluding the previously announced discrete tax item. During these challenging times, we continue to execute the strategy of building strong local businesses powered by Walmart and announced additional investments in China and India, focused on positioning the portfolio for growth. For example, we're excited about the launch of Flipkart wholesale creating a B2B marketplace to help small businesses in India sourced directly from manufacturers and producers. We'll also continue to evaluate opportunities to strengthen our position across the portfolio.

Sam's Club had another terrific quarter with strong comp sales growth of 17.2%, excluding fuel and tobacco, with positive contributions from both increased transactions and average ticket. eCommerce sales grew 39% with strong demand for direct-to-home delivery. The business show broad strength across categories including food and consumables, which were particularly strong. And our Member's Mark brand also performed well. The sales strength reflect the strong member growth and benefits from government stimulus. We're pleased with the strong membership trends of Sam's. Membership income grew 7.8% in Q2, the best quarterly performance in more than five years.

New member sign-ups and renewal rates were very strong and Plus Member penetration was at a historically high level. Sam's also incurred incremental COVID related expenses. However, the approximate $100 million of additional cost was more than offset by strong gross margins, which resulted in Sam's operating income increasing more than 24%, excluding fuel. Consistent with our first quarter release, we aren't providing FY'21 financial guidance, due to continued uncertainty around key external variables, related to the health crisis and their potential impact on our business and the global economy.

The health crisis has created tailwind, both tailwinds and headwinds to our business. In Q2 we saw stronger than expected sales, due in large part to stock of buying a stimulus spending. But the duration extend a future government stimulus remains uncertain. In Q2, stimulus spending improved our sales mix and in turn, gross margin and operating profit. We've also managed the greater operational complexities and incurred incremental costs to ensure associate and customer safety and some of those will continue. Currency headwinds also remain quite strong. If rates stay where they are today, the top line impact will be more than $1.1 billion in the third quarter. Despite the various challenges, our strong performance throughout the dynamic and challenging first half of the year reinforces the strength of this business and the omnichannel strategy we're leading. Walmart's financial position remains excellent, allowing us to position the Company for success now and in the future.

Thank you for your interest in Walmart and we would be happy to take your questions.

Questions And Answers

Operator

Thank you. At this time we'll be conducting a question-and-answer session. (Operator Instructions) Our first question is coming from the line of Karen Short with Barclays.

Q - Karen Short {BIO 20587902 <GO>}

Hi, thanks very much. I wanted to focus on eCom growth a little bit. So wondering first if you could just give an update on the customer mix and where you think you're gaining share? And I did ask this last quarter, but I'm obviously very interested in that, in terms of the demographics. And then wanted to get a little more granularity on the attachment rates on general merchandise, given the consolidation of the app. And then the last part of that was, if you could give any more color on marketplace, obviously, you called out triple-digit growth on that, maybe anything you could provide in terms of number of sellers, number of SKUs? Or any more granularity would be helpful.

A - John Furner {BIO 19351533 <GO>}

Hey Karen. This is John Furner. Good morning. Thanks for the question. As we said, eCom was up 97% in the quarter and we are excited by new customers that have joined and retention rates. And I think we've also been pleased to see the improvement and mix in categories that are selling online, which shows a bit to your second question. We've had stronger growth rates in both home and apparel online, which are sort of home has been strong and the stores -- as customers moved into their homes and a set of offices and now beginning to have school from home, those have all been strong businesses.

And then the third point that you made, marketplace, which is a very important part of the strategy, also performed well in the quarter. In addition to marketplace, we've been opening up new supplier seller tools, I should say. And including, which is now a small business, but our Walmart fullfilment service business is up and running and that we're excited by the prospect that it brings as well. So again, the team did a nice job in the quarter, reacting to customer changes in trends, more and more customers are buying from Walmart online and we're happy to see the new customer segments and the retention rates.

Operator

The next question is from the line of Paul Trussell with Deutsche Bank.

Q - Paul Trussell {BIO 20732173 <GO>}

Thank you and good morning and congrats on a strong second quarter. Brett, you spoke to back-to-school shopping being negatively impacted but all that's going on the comps in a normal range. Just any additional color you can provide on what you're seeing, I think as to date or at least maybe any other puts and takes that we should be factoring in, as we think about how to model the third quarter?

And Doug, most American shop at Walmart, in some form -- each year in the company always had just like everyday low price model. So maybe just help us understand big picture, what a membership program can achieve for the consumer, as well as for the company? Thank you.

A - M. Brett Biggs {BIO 17414705 <GO>}

Hey thanks, Paul. This is Brett, I'll start. As we pointed out, we're not giving guidance for the rest of the year. And as you can imagine with the various puts and takes that we've seen for the last five months, that certainly led to that decision. And there is things that in the second quarter, some things that help the business, certainly stimulus is one of those and some things that were headwinds to the business. And we know we're going to continue to see headwinds and tailwinds in Q3 and in the back half of the year.

And so, the balance of those and the timing of those makes it really challenging to try to put guidance out for a longer period of time, and that's why we didn't do that. As we talked about back-to-school is just, it's just slower than would normally be. But that's understandable given what's going on with students and how quickly we will get back in the classrooms. And so we're just not talking much past that, just given everything that's going on right now.

A - Douglas McMillon

I'll just chime in, on back-to-school and say that, it's just one component of the quarter and we'll have to sort out how customers want to shop as we go. But we think our inventory is well positioned and we'll just react, location by location. I don't think we got a lot of liability exposure there. The sales exposure will be mixed as we go into the quarter, and manage other parts of our business. I mean, it relates to the question of membership, Paul, I think from a customer point of view, they'll continue to get everyday low price, so continue to get the broad assortment that we sell in the stores and increasing assortment online. But the reason that they would want a membership is because of the increased levels of service that we can provide. And it kind of starts out with the thread being about pickup and delivery. And if you want delivery from Walmart frequently, it's just more efficient for the customer to buy it in bulk and that takes the form of an annual membership. And then we'll add some things to it, beyond just delivery. So that it's really more of a membership and a relationship building repeat. There is going to be an important aspect for the Company to focus on.

We'll also get the benefits of data and learn how to serve customers more effectively in time, is that membership grows. So I think in a nutshell for the customer, it relates to experience. And we keep talking about how omnichannel is a winning strategy and what we really mean by that, I think is the customer is ultimately in charge, we are going to be flexible, we're going to have multiple ways to serve them and those families will decide in that moment how they want to shop. And sometimes they'll be in the store and sometimes they'll do pick-up, and sometimes they'll do delivery, and many of them will buy a membership. And when they do, they'll get benefits from that. And we'll make sure we manage that in a way where we're able to still keep our shelf prices low, and offer EDLP to customers that really need that value and are focused on opening price points. And we'll manage the P&L in a way that prevents any kind of risk for them.

Operator

Our next question is from the line of Simeon Gutman with Morgan Stanley.

Q - Simeon Gutman {BIO 7528320 <GO>}

Good morning. I have two topics. My first also on membership and the second on Flipkart. On terms of membership Doug, I don't know if there is any more detail you can share in terms of how you plan to differentiate the offer? You mentioned that you're going to add some features and is there any indication of interest from work that you've done. And then how it fits into profitable growth, if that relationship can be maintained?

And then on the second topic of Flipkart, right there was a valuation on the quarter. I think it was a little less than what the market was expecting. So can you talk about the performance of it and what's the proper read that we should take away from the latest round of financing?

A - Douglas McMillon

Yeah, this is Doug. I mean I'll take Flipkart first and then John you can chime in our membership more. As it relates to Flipkart's, I mean, I think we're really pleased with how this whole thing has gone since we made the investment. And the teams managed this environment -- the COVID-19 environment in a really effective way. And it was nice to see once the government restriction start to get lifted, how the volume came back and we're staying close to the decisions that they're making and excited about the strategy going forward.

And with the investment, just wanted to make sure that they've got enough room, enough cash to operate. This is a time when there is so much of an opportunity that the size of the prize in India is significant, we want to make sure that we're on our front foot, being aggressive. So we're not really getting hung up on the valuation in the short-term. Over time, I think everybody will understand just how valuable that business in India is, whether it's the Flipkart portion or the PhonePe portion.

A - John Furner {BIO 19351533 <GO>}

And Simeon, first, good morning and thanks for the question on membership. Now, it's important that we first acknowledge our strength in the entire business is offering a wide assortment of everyday low price products across multiple channels and that won't change. We are -- what we're thinking through with membership as Doug said, is how to remove friction from customers' lives and make it easier to access those assortments at everyday low prices, throughout the multiple channels. So we don't have too much else to offer this morning, other than to say that, in addition to the delivery component, which we've tested now, for since last year with the program called Delivery Ulimited. We're confident that that's a great base of an offer and we'll have more to offer, when we are -- when we're ready to come out and talk about it.

Operator

Our next question is from the line of Michael Lasser with UBS.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. Recognizing that you have a everyday low price strategy in some of your competitors, within the grocery category, have a high-low or promotional strategy and the promotions were less intense for them this quarter. Your grocery sales were up high single digits, fresh was probably better, but a lot of your competitors reported mid-teens or better comps during the period. So do you think you lost market share in this important category on a unit basis? And why was that the case?

A - John Furner {BIO 19351533 <GO>}

Hi Michael, it's John. First, I'd say we were up high single digits for the quarter and that equates to sales growth of about $3 billion. And for the year we're somewhere around just over $8 billion of sales growth in grocery for the year. It's a pretty big dollar gains for the year. We did keep our prices at the levels they were throughout the entire quarter. So being an everyday low price retailer we have seen the average unit retails that have resulted in wide price gaps and even wider price gaps in the second quarter than we saw in the first quarter. So that's probably an important point determining the two differences. Then a couple of things, that we're focused on that were headwinds that are -- that are ours to deal with. One is, we've had a significant levels of in-stock issues, that have been late in the first quarter and early in the second quarter. But we do think that our inventory levels are now normalizing. We do still have pockets of in-stock issues that are both related to the supply chain and then other factors that have been caused by the pandemic.

Then the last thing that we're doing, we now have 4,100 stores that have shifted from 8:30 PM closing to 10 PM closing. We do think that was a factor especially during the summer months as the days got later. But if you look at the entire business, the real positive is, in total, we believe Walmart did gain share. General merchandise was very strong, it looks like the share gains there did make up for anything that could have been loss in food. But the data, it's a lot to work through, and we'll be reacting to this situation as time goes, and we'll be able to tell a little bit further out, how this really turns out. But overall just really proud of the way the team has responded to such an intense change in the way people have been shopping and we had big sales spikes late in Q1 and early Q2. And the team have done a great job reacting to that.

Operator

Our next question comes from the line of Kate McShane, Goldman Sachs.

Q - Katharine McShane

Hi, thanks, good morning. I wonder if we could get a little bit more detail behind your commentary around the eCommerce losses improving during the quarter. What's the biggest driver of that mix driven? And what other improvements did you see within those losses? Were there -- that you would expect to continue into the second half of this year?

A - John Furner {BIO 19351533 <GO>}

Hi Kate, this is John. There are few things that affected the business. First, the sales growth is always helpful because you gain leverage on fixed costs anytime you have growth rates really any meaningful percentage, but 97%, effectively doubling the business, helps us leverage. And the second thing that has helped, is what we call contributed profit rate CP. Our CP benefits have come from a number of factors. One factor being the mix of sales have been stronger in home and apparel than we are in the rest of the business, which are higher CP categories.

The second, our marketplace business has been strong, which is also an accretive category in relation to the rest of the business. And then the third thing we're excited about the way of working, the two merchandise and supply chain teams have come together. And now we have merchants and people in supply chain, who are responsible for businesses across all of the channels. So Walmart as a business should be able to gain continued leverage from those. But leveraging a fixed, improved CP rates and CP rates coming from both leverage and for mix all contributed to lower losses in the quarter.

Operator

The next question is from the line of Seth Sigman with Credit Suisse.

Q - Seth Sigman {BIO 17751557 <GO>}

Hey guys, good morning. Congrats on the quarter. I do want to follow-up on the online business. Two parts here. One, I think somebody mentioned repeat rates, if you could just elaborate on that? Whether you're seeing that more in online grocery or general merchandise or possibly both online, just want to get a little bit more color on that.

And then the second part of it around the profitability, the improvement in losses you just talked about, is there anything that you mentioned there that's unique to this quarter? Whether it's the volume or the mix or the marketplace growth or should we be thinking about for this trend of improving losses to continue? Thank you.

A - John Furner {BIO 19351533 <GO>}

Yeah. Thanks Seth. If you see think on repeat rates, first, online grocery, you asked about, we've traditionally had a high repeat rate and high number of customers who are loyal in the channel. And that hasn't changed. In the end of the first quarter, we had to reduce the number of slides due to inventory levels and then over the second quarter, we got slots not only back to where they were, but pickup slots up about 30%. So that's a strong part of the business and continues to grow.

Online, in your very traditional direct-to-home orders, we have new customers and we have customers who are buying more. So there are positives there. And as far as if there is anything related to this, the second quarter, this anomaly, I think it's too early to tell. As we said, we're not able to forecast or provide guidance beyond what has already happened in the second quarter. Certainly strong businesses in home where people are moving home and building home offices and buying office equipment, yet to be determined of how long that trend could continue. But there are other areas within the eCom business that are also strong and everywhere that we see headwinds, we also see tailwinds. So we'll just have to sort those out over the next couple of quarters.

Operator

Our next question is from the line of Peter Benedict with Baird.

Q - Peter Benedict {BIO 3350921 <GO>}

Hi guys, thanks for taking the question. Just wondering if you could maybe expand a little bit on the health care strategy, kind of where that sits right now, I know there have been some changes. But just maybe help us understand where you are today and where you're taking that effort? Thanks.

A - John Furner {BIO 19351533 <GO>}

Hey Peter, this is John. We're really committed to healthcare. I don't think we'd have any change in strategy that we would talk about at this point other than to say that we we're appreciative of the work that Sean did while he was here at Walmart, he was here about two years and he wanted to get some clinics open and get it started, which he did and did a great job. We now have clinics in Georgia, Arkansas, moving into the Florida market and then later in the year, we've also announced a couple of clinics that will go into Chicago. So for Americans who are looking for high quality, access to high-quality care at an affordable, very transparent price, Walmart will be a great solution for consumers, and we remain committed to the health care space.

A - Douglas McMillon

Hey Peter, this is Doug. I'll just add that, we've recently opened another clinic, not far from Bentonville, in Elm Springs. And it's a smaller clinics than the one that some of you have seen in Dallas, Georgia. And I think it's an example of us trying to figure out how many sizes we need with this square footage needs to be in the equipment, investment, all those kinds of things. So we're playing around with it as you would expect, and it's been interesting to watch how customers are interacting with that experience during COVID-19 environment.

The team is doing a great job. The medical doctor and the other professionals in the clinic are keeping people safe and demand is still strong in an environment where people are not necessarily taking advantage of a lot of preventative care. So it's really -- I think interesting and exciting for us to try and figure this out. And even during this COVID-19 period of time, we're learning and figuring it out.

Operator

The next question is from the line of Bob Drbul with Guggenheim.

Q - Robert Drbul {BIO 3131258 <GO>}

Good morning. I guess just given some commentary around back-to-school, being a little slow right now. Just wondering if you could maybe take a step back and give us some thoughts on where you think the consumer is, where do you think the economy is? And I guess most importantly when you think about the holiday season, you have to plan a little early, if you might give us some color -- excuse me, some color about the holiday season and sort of how you really thinking about it at this point in time? Thanks

A - Douglas McMillon

Bob, I'll go first. This is Doug. It's obvious to say this but there is just a lot of uncertainty right now and so much variance in how customers are feeling about their situation. And this decision, that the government has got to make about Phase 4 investments is an important one. And I think it's really important as it relates to small business. And this economy and this country are driven so much by small and medium-sized businesses, that we want to see something happen there, that will help support those folks. I think the larger companies are getting things sorted out and the government's paying attention to the larger companies that need some sort of financial support. But it's that, that small business group that in particular, I think we all need to keep our eye on, and will probably determine just what this economy looks like on the other side of the Phase 4 stimulus.

A - John Furner {BIO 19351533 <GO>}

And I think, Bob, I'd also add, definitely, we see a number of consumers who are feeling better about their personal finances, but the sentiment is a little lower than what we have in a year ago. And then we are also thinking about the number of consumers who are thinking about job security and other opportunities. I think in general, people perceive they're spending more money on food, despite eating out less. And so I think with the consumer will be thoughtful about the way we plan the rest of the year and we'll be very adaptive and react to changes in the trends that we see from our shoppers.

Operator

Our next question is coming from the line of Greg Melich with Evercore ISI.

Q - Greg Melich {BIO 1507344 <GO>}

Hi, thanks guys. One key question on the costs. I think, Brett, in the first quarter, you said it was $900 million of incremental COVID costs. Is that right number for this quarter, the $1.2 billion? And anything you could give us in terms of the breakdown of that on sanitation versus labor costs? And what you think might persist into the quarter and fourth quarter? Thanks.

A - M. Brett Biggs {BIO 17414705 <GO>}

Yeah. Thanks, Greg. So the $900 million in the first quarter would be equivalent to the $1.5 million in the second quarter or $1 billion -- sorry the $1.2 billion which is U.S. -- Walmart U.S. only. About 75% of those costs are related to bonuses, payroll, benefits and the like for associates. So it's about quarter of that -- that's related to cleaning and sanitation and other things inside the store. There certainly could be some part of that, that continues, the rest of the year and potentially I would think in the next year as well. So our ability to continue to be thoughtful about it, but safety and -- of our customers, our associates are just number one on our mind as we take on those costs. So it's obviously something that we're going to do going forward. The bonus, the number in total was a little higher than last quarter. The second quarter -- or the last bonus, the third bonus that we announced was accrued for in the second quarter, so that got picked up. So that would be one additional bonus versus what you were seeing in Q1 and that's the main difference.

Operator

Thank you. Our next question comes from the line of Oliver Chen with Cowen.

Q - Oliver Chen {BIO 15320650 <GO>}

Hi, thank you. All the momentum in curbside, would love your thoughts on what you see ahead with automation and profitability. And also, as you look at your customer insights and data, what are your thoughts about the customer type that would use curbside versus delivery and how that may manifest over time?

A - John Furner {BIO 19351533 <GO>}

Hey, Oliver. The question on automation as well, I'll start with. First, we have been working on a couple of pilots where we we're able to, I'd say, automate, but really increase the amount of picks we're able to deliver from a store. We've got a store in New Hampshire, with a system called Alert, that does our grocery picking and assist with everything right up to dispensing. And we'll be expanding that pilot into Texas over the next few months. So I think mostly we're optimistic about the number of orders will be able to fill from these sorts of installation going forward.

And then as far as the customer who is picking up today and whether they're interested in delivery not, I think, what we learned from delivery unlimited, is that there are a wide range of people who appreciate delivery and are looking for ways to be able to buy delivery and pay for it in a way as Doug said, that's in bulk. So we, I think it's largely the same customer, and we'll, of course learn more as time goes on. But Americans all over the country are looking for convenience, and with WalMart's everyday low price plus a convenient delivery fee, we see a lot of customers who are interested in this type of service.

A - Douglas McMillon

It's also been nice to see the Sam's Club team get curbside, rolled up so quickly. And I think when small business comes back online, we're well suited to serve bigger transactions from them, that currently the restaurants being closed aren't happening as much as they will after the pandemic is over.

Operator

Our next question comes from the line of Kelly Bania with BMO Capital.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, good morning. Thanks for taking our questions. Just wanted to ask with so much discussion about membership and the potential there with Walmart -- with delivery unlimited or down the road with what may evolve into Walmart Plus, I was just surprised to see the headlines about the test with Instacart. So I was wondering if you could just help elaborate on the thought process there?

A - John Furner {BIO 19351533 <GO>}

Yes. Thank you Kelly and good morning. We are excited about the prospect of customers being able to access products and prices at Walmart anywhere they choose, including deliveries, you said. And then the specific question on Instacart, it is a test in California and then one market in Oklahoma. And what we are -- we're hoping to learn is, this a combination of those to reinforce the value proposition that Walmart has to offer. Certainly it's early -- it's only been about a week, so really no read or anything to report on at this point. But we're looking forward to learning about the data as it comes in.

Operator

Our next question is from the line of Edward Kelly with Wells Fargo.

Q - Edward Kelly {BIO 6360445 <GO>}

Yeah. Hi, good morning. Just a few mostly kind of follow-ups. Just, first on July, any color on the gross margin performance in July? And then as it relates to holiday and just kind of curious early thoughts on the current environment, what we should expect sort of consumer behavior? And how are you preparing to win in the shopping environment that probably will be different than anything we've seen historically?

A - John Furner {BIO 19351533 <GO>}

Hey, Edward. On the margin, we don't break out by month, but across the quarter, the results are of course, then they release stronger mix and then fewer markdowns as a result of higher sell-throughs in general merchandise. And then as far as the holiday season, it's August now and we're in the midst of the beginning of back-to-school. So we're carefully thinking through each of the different holidays and how they may change as a result of what's happening. But even like with schools, we're still learning day-to-day, which schools are open or planning to open. And I think every one of the holidays that will be experienced over the next couple of months, so we'll have to decide as we get closer. So the team is really working on plans and contingency plans and making sure that we are ready for the customer, anywhere they want to shop. They've shifted in purchasing online, you can see that in our online results up 97%. And with the growth of pickup, we'll make sure that we're ready with both of these types of fulfillment options, in addition to store shopping. So however the customer wants to shop, we'll be ready.

Operator

Our next question comes from the line of Scott Mushkin with R5 Capital.

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey, guys. Thanks for taking my question. Actually, I did want to follow up on some of that came up earlier in the call, on the grocery business. I think, the second quarter, I know food was up high-single digits. But the overall grocery business was up mid single digits. And I know you guys referenced some out of stock issues, but that was a kind of a challenge across the industry. So we kind of take a step back, I mean it looks like a lot of your competitors ran in the high teens. And so that's a pretty big difference, and I was wondering if you could maybe revisit that again and say, you know what, what you think drove that big delta between you and your some -- some of your grocery competitors?

A - John Furner {BIO 19351533 <GO>}

Yes, Scott. This is John again. As I said earlier, we were high-single digits in the food category. Stronger comps in general merchandise and the growth in the quarter and food was about $3 billion in sales. And what we're really focused on is the change in the number of stock-up trips which you've had a pretty big increase in the average ticket. And then internally, what we are working through, as I said earlier, we've now got over 4,000 of our stores back open until 10:00 PM. We think that had an impact. And then again early in the quarter coming out of the first quarter, we know with a number of issues in -- with out-of-stocks.

And Walmart has been improving over the years, its ability to run a very lean and efficient supply chain. And with the spikes in sales early -- or late in the first quarter or early in the second quarter, those had a disproportionate effect on our business because of out-of-stocks. But for the most part, I'm feeling much better about normalized inventory levels, and our recovery. And now we're -- we'll just work through different categories initiatives we have with the supply chain not been able to fill at the right time. But in general, the inventory levels are coming back into a more normalized position.

Operator

The next question comes from the line of Chuck Grom with Gordon Haskett.

Q - Charles Grom {BIO 1450381 <GO>}

Hey, thanks a lot. Can you guys just unpack the ticket versus traffic dynamic throughout the quarter? And I guess I'm curious, was the slowdown in July mostly ticket? And then when you look ahead to 2021, how do you think --how you're thinking about lapping these great results? And then the final question would be, if you guys could elaborate on Walmart fulfillment services. Thanks.

A - Douglas McMillon

Yeah, good morning. Good morning, Chuck. The question on lapping next year, we're working on the month of August. We're all smiling other Chuck, if you could please tell us what's going to happen in 2021? We would appreciate it.

A - John Furner {BIO 19351533 <GO>}

That's right. That's right. And so we were just constantly reevaluating -- evaluating how to dynamically make sure that we are staying ahead of where the customer is and what the customer needs from us. Back to -- what was your first question again? Traffic ticket. The traffic was -- and we again, we don't break out the months for the quarter, but you saw the quarter number, down 14% and then stock-up trips are up. So customers are coming, less often, but they're buying a lot more while they're there. And the combination of those two factors are what resulted in the 9.3% comp. So just much bigger baskets and our pickup business which is growing faster than the total or eCom business is growing faster than total -- our eCom business is growing faster than total. So the pickup business is a much larger ticket than what you'd see as a permanent store shopper.

And then on the marketplace and fulfillment services, again early in the journey, we're just few quarters in, but excited about the leadership and the team and what they're able to do for sellers. And this will --the combination of this along with marketplaces and then other relationships where sellers can easily list the number of items on the site. We think, will provide a really valuable place for sellers to come and sell to our customers. So we're excited about the prospect of all these businesses.

A - Douglas McMillon

I think as it relates to the future, I would just remind everybody that at this point we've got stores pickup delivery, a growing eCommerce fulfillment center assortment and set of capabilities. And so we're positioned to serve on how they want to be served, how they want to shop. So I think the flexibility to respond to 2021 and beyond is there. And the team is doing a great job of reacting with speed. The cadence inside the company has picked up. We kind of smile when we think about the holiday because while we have to plan in some aspects of the holiday, we're managing year near term much more actively than we would in a different environment. So I think we're set up to have a business that will grow at a fast rate and to manage the profitability of it.

It was good to see in the last few years our general merchandise business online grow. And you guys know, we've had a lot of brands and lot of items. And then in this last quarter it was unique because people -- lot of people are at home and stimulus checks supported purchasing and things for them to use at home, to entertain themselves or to fix their home up. So that was unique. But the commonality of it is that the GM business in Walmart is strong, and that contribution percentage -- contribution profit percentage of eCommerce is an encouraging metric. So I know you're all trying to figure out what the future looks like. I think we're fundamentally well positioned for it, and then we'll managed to short-term to react to the opportunities that are presented.

Operator

Thank you. The next question is from the line of Paul Lejuez way with Citi.

Q - Paul Lejuez {BIO 6299659 <GO>}

Hey, thanks. There is two questions. One, I'm just curious if you can maybe talk about the gross margin improvement. How much of that was from simple mix shift versus maybe if you can talk about which categories or segments did you see gross margin improvement on a year-over-year basis?

And then second, just back to the eCom profitability, Doug, if eCom runs up about 100% for the rest of the year, what is profitability will look like for 2020? Thanks

A - Douglas McMillon

A lot better. It's looks a lot better. We figured that out. Brett was reminding us this morning, if you get more sales, it helps everything else, so we've written that down, and we're going to kind follow up on that. I think John walks through the components of eCommerce earlier, I won't repeat all the pieces, but there are some big pieces of eCommerce P&L, that are moving in the right direction. And they were before, it's just that these tailwinds accelerated that. So we don't know what the economy will look like next year in the U.S., we'll have to wait and see. But this theme of an omnichannel presence is happening inside the company all over the world. And we focused in this conversation, a lot on the U.S., because that's where your questions went. But if you dig into what's happening at Walmex, look at what Canada starting to do, it's exciting to see that thematically this work is looking more and more common. And of course we're learning a lot from Flipkart and how they operate. But these conversations about strategy in the eCommerce P&L are increasingly common from country to country.

A - M. Brett Biggs {BIO 17414705 <GO>}

On gross margin, it was a number of different things, which I mentioned, a lot of it was mix. Certainly general merchandise as Doug said, we've been very focused on general merchandise business and it's nice to see that really come to fruition in the second quarter. But also, just sell more of your markdowns and markdowns were a big part of the story and lack of markdowns, big part of story in Q2, fuel margins were also better. So it's really all three of those things that were in our favor for the quarter.

Operator

Our next question comes from the line of Edward Yruma with KeyBanc.

Q - Edward Yruma {BIO 4940857 <GO>}

Hey, thanks for taking the question. I guess, really quickly on last mile, I know you've been innovating a lot there. Could you give us an update on kind of your ability to roll-up this membership from a Spark perspective? If you see any changes in California due to AB5? And then second, just as you think about store comps, when some of your non-essential peers opened up, did you see any discernible difference? Thank you.

A - Douglas McMillon

Edward, on a last mile, today we're delivering from about 2,800 stores with line of sight expanding more. We've now got Express, which is a service that you can expected delivery in just under two hours in some cases even faster than that, in around 2,000 stores. So those are big numbers and getting bigger. So I think the ability for Walmart to expand its delivery service is strong. And Spark is a program that we're running. As you're aware mostly in the center of the country in the Midwest, and it's doing well and growing. And we're excited about the innovations that, that the team were working on in Spark to make this a business platform that's easy, easier for drivers and others. And then...

A - M. Brett Biggs {BIO 17414705 <GO>}

On the last question, it's Edward, my sense that the order of things, the order of tailwinds that impacted the business were: one, stimulus; two, eating at home; three, being at home and all the things that you wanted to do to have the indoors and outdoors be more pleasurable and you weren't spending money if you're a customer on travel and lodging and things like that. So those dollars were available for you to buy things for your home as well. Those are the things that were more impactful tailwinds than whether or not other competitors were open.

Operator

The next question is from the line of Ben Bienvenu with Stephens.

Q - Ben Bienvenu {BIO 18962123 <GO>}

Hi, thanks. Good morning everybody. I wanted to ask around working capital inventory in particular obviously, working capital has been a really nice tailwind for the business for the last couple of quarters, in light of what inventory and receivables and payables have done. You've built-up a pretty sizable cash balance on the balance sheet. Could you help us think about, how you think about positioning the cash balance going forward, whether it's preparedness for normalization of working capital or otherwise?

And then if I think about inventory in particular, they're down 7.5%, where would you have liked that to have been in a normal environment? Where you guys are positioning that line...

A - Douglas McMillon

Ben, this is Doug. Brett will respond to the working capital questions. We're laughing here because if you've been in some stores with us in the second quarter -- early in the second quarter, we could have used inventory everywhere. I saw some stores that were remarkably like -- just it was deeply concerning, and the team was obviously scrambling that. We could walk you across the supercenter and we've felt pressure in eCommerce too. But we were obviously feeling pressure in the beef and pork categories was well reported, but we were out of stock on fabrics. We were having challenges in sporting goods. We needed a lot more inventory than what we had during portions of the second quarter. And we look a lot better today. But we were really a lot lighter than we would have wanted to be.

A - John Furner {BIO 19351533 <GO>}

Yeah. Just an example, Ben, when we think about 25 million Americans would go fishing on a regular basis before February, and that number has now moved to 35 million. So 10 million people decided to pick-up just this one hobby and...

A - Douglas McMillon

Bicycle and golf.

A - John Furner {BIO 19351533 <GO>}

Yeah, bicycle, is the same way, golf.

A - Douglas McMillon

I looked at fishing in the store this week, and we're still really light, just basic terminal tackle, hooks and bobbers and stuff like that. It's got a lead time on it different than what this environment requires.

A - M. Brett Biggs {BIO 17414705 <GO>}

Then on working capital, and then just how we think about capital allocation in general, it really hasn't changed. We're going to continue to support the business, our CapEx down a little bit, but I would think about that more is timing, just not want to interrupt our stores with everything that's going on. We have built up a little more cash than normal, and some of that is just because we're generating more cash than we have in the past. But also it's not a bad time to have a little bit of extra cash on hand as opportunities come about and just ensuring that we protect the business. But I wouldn't -- as far as how we think about capital allocation, I wouldn't view any changes in that.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session. Now I'll turn the floor back to Doug for closing comments.

A - Douglas McMillon

Yeah. We don't have anything else to say other than thanks for paying attention to the Company, and we appreciate you dialing in today. Thank you.

Operator

Thanks everyone. This concludes today's conference. You may now disconnect your lines at this time. We thank you for your participation, and have a wonderful day.