Q3 2021 Earnings Call

Company Participants

- Brett Biggs, EVP and Chief Financial Officer
- Dan Binder, Vice President, Investor Relations
- Doug McMillon, President and Chief Executive Officer
- John Furner, President and Chief Executive Officer of Walmart U.S.
- Judith McKenna, President and Chief Executive Officer, Walmart International

Other Participants

- Chuck Grom, Analyst
- Ed Yruma, Analyst
- Karen Short, Analyst
- Kate McShane, Analyst
- Kelly Bania, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Lejuez, Analyst
- Paul Trussell, Analyst
- Peter Benedict, Analyst
- Robert Drbul, Analyst
- Seth Sigman, Analyst
- Simeon Gutman, Analyst

Presentation

Operator

(technical difficulty) (Operator Instructions) As a reminder, this conference is being recorded.

I will now turn the conference over to your host, Dan Binder with Investor Relations.

Dan Binder {BIO 1749900 <GO>}

Thank you, Rob. Good morning and welcome to Walmart's third quarter fiscal 2021 earnings call. I'm joined by several members of our executive team including Doug McMillon, Walmart's President and CEO; Brett Biggs, Executive Vice President and Chief Financial Officer; John Furner, President and CEO of Walmart US and Judith McKenna, President and CEO of Walmart International. In a few moments, Doug and Brett will provide you an update on the business and discuss third 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 a 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. In addition, we have posted our fiscal year 2022 earnings release dates on our IR website stock.walmart.com. It is now my pleasure to turn the call over to Doug McMillon.

Doug McMillon {BIO 3063017 <GO>}

Thanks, Dan. Good morning, everyone. We're happy to visit with you about another strong quarter. As this challenging moment in history continues, we've seen the best in our associates. They keep showing up and stepping up. They are adapting and becoming what we must become to thrive in the next generation of retail. Our leaders are learning and applying new skills at a new pace. We're grateful for and proud of how they're bringing our purpose and values to life. With the outbreak of COVID-19, the retail world click to a fast forward and our ability to adapt quickly has been crucial.

Changes in customer behavior have accelerated the shift to e-commerce and digital. We were well positioned to catch and ride these waves given our previous work and investments. Our eCommerce and omnichannel penetration continue to rise, accelerating trends by 2 to 3 years in some cases. We're convinced that most of the behavior change will persist beyond the pandemic and that our combination of strong stores and emerging digital capabilities will be a winning formula.

Customers will want to be served in a variety of ways, and we're positioned to save them money, provide the variety of product choices they are looking for and deliver the experience they choose in the moment. Now let me cover some quarterly highlights. Despite an unusual and softer back-to-school season and less benefit from government stimulus spending versus the first half of the year, revenue for the third quarter increased 6.1% in constant currency and adjusted EPS for the quarter was $1.34, an increase of 15.5% versus last year.

Walmart US had another strong quarter. Comp sales increased 6.4% and we significantly reduced operating losses in eCommerce. Consistent with the second quarter, we saw customers consolidate shopping trips with larger baskets and fewer transactions. Comp sales accelerated from the beginning of the quarter, helped by food, consumables and health and wellness.

E-commerce grew 79%, growth was strong in pickup and delivery as well as direct-to-home with the highest growth coming from marketplace. We also launched Walmart Plus and we're excited to have that important piece of the puzzle in place. We launched it with an initial set of benefits that we know are important to our customers. Over time, we'll evaluate the program against our broader set of assets with the aim of improving the value proposition and deepening our relationship with customers, including earning a greater share of wallet.

Our merchant and replenishment teams are working hard to ensure we have products available for our customers. In-stock levels have improved from Q2, but we're still below where we want to be. The team is being flexible when it comes to meeting demand. For example, we've turned on nearly 2,500 stores to fulfill online orders. We can quickly flex this number as the holiday season progresses to help relieve pressure on our eCommerce fulfillment centers if necessary.

This holiday season will obviously be unique. While many family gatherings may be smaller, we do believe families want to decorate, celebrate and enjoy food and gifts. They want a sense of normalcy. And our traditions help bring some joy and comfort to this difficult year. With the importance of social distancing in mind, we planned several holiday shopping events this year. So customers can enjoy special items and pricing over a longer period of time and shop in the way that's best for them. At Sam's Club, strong comp sales of 15.3% minus fuel and tobacco included a good balance of increased ticket and transactions. Great items drive the club business and our merchandising offer is compelling.

Our strength in fresh food and the uniqueness of Member's Mark continue to make it special to be a member. Membership income is vital for Sam's and we're encouraged by our performance. New member sign ups were strong. Overall, renewal rates increased nicely and renewal rates for Plus members increased more than 350 basis points. Consistent with the growing popularity of a contactless shopping experience, Scan & Go penetration is up more than 600 basis points and curbside delivery has been well received by members and is growing well above our overall comp sales.

Outside the US, we had another solid quarter, performance wise. And we announced additional portfolio actions to increase our focus on priority markets. Overall, net sales increased 5% in constant currency and comp sales were positive in 8 of 10 markets. In India, Flipkart and PhonePe had strong results for the quarter. The number of monthly active customers for these platforms is at an all-time high. At Walmex, we continue to see good results as comp sales once again outpaced the overall market. eCommerce is also accelerating with growth of more than 200% for the second consecutive quarter. Customers are increasingly looking for omnichannel solutions and we're providing it for them.

In Mexico, we completed the rollout of same-day delivery to all Sam's Club locations and in Central America, we opened our first store with omnichannel capabilities. In Canada, we saw a broad-based strength across categories, especially in food and consumables. We see strong growth in e-commerce in this market too with sales growth of 177%. We're focused on providing more digital solutions for customers to make shopping easier. With a national rollout, mobile check-in customers can now use their phone to check in when picking up their online grocery order. We continue a series of actions to increase our focus on priority markets. We've recently announced the sale of our businesses in the UK, Argentina and Japan. These teams have been an important part of Walmart and we'll miss them. They will continue to innovate and grow under the new ownership structures, positioning them for future success.

We're committed to our stated priorities and you can see it with these actions along with others in the US, including Jet and Voodoo. We know where to invest and we'll be aggressive where we should be, while taking action in other areas.

Before closing, I'd like to touch on a few additional points. The recent rise in COVID cases throughout the country reminds us we must remain vigilant. As we've done since the beginning of the outbreak, we will continue being disciplined about the safety protocols throughout our stores, clubs, distribution and fulfillment centers. We're reinforcing our messaging to customers, members and associates regarding wearing face coverings, social distancing and other safety measures. While the health and safety of our customers, members and associates is our first priority, we realize the increasing cases will put more pressure on small businesses that have been heavily impacted by the pandemic. As various governments around the country tighten up to help keep people healthy, it will be imperative that elected officials in Washington work together to deliver the help so many small businesses need to get through this next phase of the pandemic.

Leading on social and environmental issues has become part of our core business for over 15 years now. And so despite COVID-19 that work has naturally continued. ESG work is part of who we are. Across the company, creating economic opportunity for associates through jobs and advancement is something we're proud of. We were pleased to adjust our store structure, increase wages for around 165,000 associates in Walmart US and more than 20,000 received increases in Sam's Club US. We're also pleased to have hired over 0.5 million new associates during the course of this year globally as so many of them need work. A few of the recent examples include the work we're doing to increase racial equity and address climate change. We created shared value networks, made up of Walmart associates who are looking at ways we can make a difference in education, financial, healthcare and criminal justice systems.

They are finding natural overlaps between our core business and opportunities to advance racial equity. For example, we launched a new race and inclusion curriculum and we've seen hundreds of thousands of associates access it since August. We also have a new requirement for US based officers to complete racial equity training and to drive further transparency on the progress we're making, we launched the first ever mid year diversity report. As for our environment, we've set a goal of becoming a regenerative company. We want to do more than slow down the damage to our planet. We want to reverse that process and actually add back and strengthen nature. We're working to restore, renew and replenish our planet and we encourage others including our suppliers to do the same. We've set a date of 2040 to target zero emissions without relying on carbon offsets in our own operations and fleet.

This builds on our leadership as being the first retailer with a science-based target for emissions reduction. Please take a few minutes to learn more about what we're doing by referencing our ESG report on our corporate website and accessing the Virtual Milestone Meeting we recently hosted, which you will also find there.

Last, I want to wrap up by saying, congratulations to President-elect Biden. We look forward to working with the administration in both houses of Congress to move the country forward and solve issues on behalf of our associates, customers and other stakeholders. We thank you all for your interest in our company. Happy holidays.

Brett Biggs {BIO 17414705 <GO>}

Thanks, Doug and good morning, everyone. Our third quarter results were strong and highlight the continued progress in our omnichannel strategy. We continue delivering solid results while positioning the business to win long term. We also continue to allocate capital toward the most compelling long-term opportunities demonstrated by continued investments in supply chain, eCommerce technology and store innovation while reshaping our global market portfolio. Despite the challenges of this unique time, associates around the world continue to do an outstanding job responding to the customer's need for greater shopping flexibility by accelerating omni initiatives. We're creating and launching new products and services such as Walmart Plus helping us develop deeper relationships with customers. In fact, we've doubled the number of US store associates supporting digital and omni initiatives this year.

We believe, we have the customer focused strategy to win long-term. Now let's discuss Q3 results. Total constant currency revenue growth was strong up 6.1% to more than $135 billion. Walmart US comp sales increased more than 6%, international net sales grew 5% in constant currency and Sam's Club grew comp sales more than 15% excluding fuel and tobacco. The health crisis continued to shape shopping behaviors with trip consolidation, larger baskets and growing e-commerce penetration. Gross profit margin was strong in each segment and increased 50 basis points in total aided by strategic sourcing initiatives and fewer markdowns, while eCommerce margins also improved.

SG&A leverage of 18 basis points in Q3 was aided by lapping last year's non-cash impairment charge of approximately $300 million or 23 basis points, but was negatively impacted by nearly $600 million or 44 basis points of COVID related costs. We continue to see operating efficiency improvements around the company. Adjusted operating income on a constant currency basis was up more than 16% and adjusted EPS of $1.34 was a 15.5% increase versus last year's Q3 adjusted EPS. GAAP EPS was $1.80 which includes an unrealized gain on our investment in jd.com partially offset by $0.34 loss on the sale of Argentina due primarily to foreign currency losses.

Operating cash flows year-to-date has been exceptional and was up approximately $8.3 billion versus last year to nearly $23 billion. Free cash flow was $9.7 billion higher due to increased sales, continued operating discipline and lower CapEx, some of which is timing. Inventory increased about 60 basis points in Q3, due primarily to timing of holiday events. We resumed share repurchases in Q3 with more than $450 million repurchase during the quarter.

Now let's discuss the quarterly results for each operating segment. Walmart US had another strong quarter with comp sales excluding fuel up 6.4% and eCommerce sales growth of 79%. eCommerce sales were strong in all channels throughout the quarter. Walmart.com traffic has been robust with solid increases in repeat rates and good momentum in marketplace sales, which grew in triple-digits.

As we noted, when we announced Q2 earnings, third quarter sales started out a bit softer, particularly in the US due to a delayed back-to-school season. However, sales picked up in September and the momentum continued through October. Consistent with prior quarters, we saw continued strength in home, electronics and sporting goods. We're pleased with market share gains in several general merchandise categories, according to NPD. Grocery sales also strengthened throughout the quarter led by strong comp sales in food categories helped by expanded store hours, improving in-stocks and strong price positioning. We continue to see trip consolidation and significantly larger baskets in Q3, resulting in average ticket increase of about 24% and a transaction decrease of about 14%. Customer transactions began to improve after we expanded store hours and we expect this trend to continue as we further extend store hours this month.

Gross profit rate was strong, up 33 basis points due primarily to strategic sourcing initiatives and fewer markdowns. We continue to make progress on eCommerce margin rates as we drive faster growth of marketplace sales and improved product mix. Also the phased reopening of the Auto Care Centers and Vision Centers during Q3, has alleviated some of the negative margin pressure experienced during the first half. The carryover of last year's price investment continue to negatively affect margin rate. Incremental COVID related costs of more than $430 million negatively affected expense leverage by about 50 basis points.

As a result, the US segment deleveraged 9 basis points. Operating income was up 9.9% for the quarter, including a continued reduction in eCommerce losses, inventory increased 5.5%, primarily reflecting the timing of holiday merchandise flow and the continued recovery of in-stock levels from earlier in the year. We're making good progress to get certain categories to higher in-stock levels and overall, we feel good about our position for the fourth quarter. While it's still early in the quarter with big sales days in front of us, we expect it to be a good holiday season. International delivered strong Q3 results with net sales of [ph] 5% in constant currency, including 56% eCommerce growth.

Currency fluctuations were a headwind to sales of approximately $1.1 billion. eCommerce penetration continues to accelerate and grew nearly 500 basis points this quarter. 8 of 10 markets posted positive comps, with sales in Canada, and Mexico, particularly strong including triple-digit eCommerce growth in both markets. Flipkart continues to perform well and recently completed its best ever big billion day sales event in October. Their third quarter GMV continue to reflect strong demand post COVID lockdowns with significant growth in monthly active customers.

Canada comps increased more than 7%, with broad-based strength both in stores and online and China saw continued strength with double-digit comp growth in Sam's Clubs and eCommerce growth of over 60% despite some softness in hypermarkets. Comp sales in Mexico grew more than 5% as the omnichannel strategy continues to accelerate. International adjusted operating income was strong aided by government stimulus in various markets, Flipkart's improved margin mix as well as cost savings initiatives in Mexico. The quarter included incremental COVID related costs of approximately $65 million. Operating income increased 70% on a reported basis and about 22% on an adjusted constant currency basis, excluding the benefit from lapping last year's impairment charge.

Sam's Club had another terrific quarter with comp sales growth of 15.3% excluding fuel and tobacco with contributions from both increased transactions and average ticket. Strength was broad based across categories with food and consumables, leading the way. eCommerce sales grew 41% with strong demand for direct-to-home delivery and increased club pickup. We're pleased with the strong membership trends at Sam's as membership income grew 10.4% in Q3, the best quarterly performance in 5 years. This reflects higher renewal rates, robust new member sign ups and rising plus penetration. Strong sales and gross margins more than offset the approximate $80 million of additional COVID related costs, resulting in an operating income increase of nearly 32%. Consistent with prior quarters, we aren't providing FY '21 financial guidance due to continued uncertainty around the key external variables related to the health crisis and their potential impact on our business and the global economy.

The health crisis continues to create both tailwinds and headwinds for our business. In Q3, we saw strong sales aided by some stock buying and continued stimulus spending, albeit to a lesser extent in the first half of the year. Q4 will feel different from past years as customer shop differently and shopping events are spread out. eCommerce and omnichannel penetration continue to accelerate and we are in a good position to serve customers this holiday season. We expect COVID related costs to continue for some time, along with some general global uncertainties.

In addition, currency headwinds remain elevated, if rates stay where they are today, the top line impact would be around $1 billion in the fourth quarter. Despite the unique challenges this year, Walmart's financial position remains rock solid and our strong performance reinforces the advantages of our omni strategy. We'll leverage our scale, unique assets and financial strength to continue positioning the company for growth in the US and in key markets around the world.

I remain very optimistic about what this company can do in the future. As always, thank you for your interest in Walmart and we'd 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 from the line of Michael Lasser with UBS.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning, thanks a lot for taking my question. The Walmart US grocery comps had been strong but increased half the rate as the conventional grocers have been reporting, so as you look towards next year, when the grocery category retraces due to the shift back to food away from home, should the Walmart US grocery business slow less than others because it didn't rise as much this year and also if you could give us some sense, has the Walmart US eCommerce gross margin reached an inflection point where it can sustainably generate increases year-over-year because of mix, third party contribution and the impact of Walmart Plus subscribers. Thank you very much and have a good holiday season.

A - John Furner {BIO 19351533 <GO>}

Good morning, Michael. It's John Furner with US segment. Let me take the question on food first. In the quarter, we were happy with the results. Our food comps in total were just in the -- call it the mid to high single-digit range, and we did see sheer improvements from the second quarter and we think in the second quarter, our comps would have been influenced by shorter store hours. We were open only till 8:30 in the evening. We've recently expanded tp 10:00 PM. And in some locations where we felt it was safe we moved downward to 11:00 PM at night and those have had improvements. We've seen a trend improvement on our food share in total over the 2 quarters.

Looking at the food business in general, our in-stock position is much better in the third quarter. It was much better in the third quarter than was in the second. And then generally speaking, our price position has remained very strong in Q2 and Q3, which was at a better position than it was in the first quarter of the year. So we are pleased with the improvements and share trends from the third -- in the third quarter from the second quarter. And then the last thing I'd say is the team has also done a very nice job with the online pickup business. We've doubled the number of people that are working in that business up to about 140,000 which is 2x what it was a year ago. So overall the improvements in food share has been pleasant from the third quarter than [ph] second.

I think your second question was on eCommerce margin specifically and Michael, those results are reflection of mostly mix as we described. Our home business has been solid online. Our apparel business has led and then the overall winner in the eCommerce business was our marketplace business which led the marketplace or led the eCom comp in total to 79% for the quarter.

Operator

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

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, good morning. Thanks for taking our questions. Also just wanted to ask about the reduced eCommerce losses and curious about just how Walmart Plus could maybe change the trajectory of that at all. I know it's still early days, but just curious on how to think about that longer-term. And then also just in terms of capacity for eCommerce, is it possible that stores could become a permanent area of capacity in fulfilling online orders or given the significant growth this year. Is there any need to expand fulfillment center capacity?

A - Doug McMillon {BIO 3063017 <GO>}

I'll start Kelly. This is Doug. And then John can jump in. I think as it relates to Walmart Plus and losses, we're putting together an ecosystem where these parts are connected, and I do think Walmart Plus can be helpful in a lot of ways over time and the information that we will have about customers, the ability to personalize. I think, we'll be able to serve them better. And both sides, the stores and eCommerce will come to life in a way that helps make Walmart Plus even stronger. But I wouldn't underestimate the significance of the other components as it relates to eCommerce losses and eCommerce growth kind of the basic blocking and tackling, getting the contribution profit to a healthy level, things like mix that John just mentioned a minute ago, apparel and home mix in particular the ability to leverage cost to pick efficiently, obviously getting things into one box, as much as possible, getting shipping efficiencies, all those kinds of things are going to generate a sustainable businesses as it relates to eCommerce as a channel over time. We will keep an eye on eCommerce as a business of course but also remember, we've got all these other levers, where it's an omnichannel business, we've got a lot of variables on the store side.

So when we think of how we blend the combination of revenue, expenses and profitability together, we think of it in a holistic fashion. It is great to see how stores have been playing a role with fulfillment.

A - John Furner {BIO 19351533 <GO>}

And Kelly, at a certain point this year, in the second quarter, we had up to 2500 stores working as fulfillment centers to handle demand and been in the last few months, we've been able to open more fulfillment center capacity, including staffing up to be able to pick orders and ship from store. So I think the important note there is as Walmart has so many assets that can be used to take care of customers in any way they want to shop or do their [ph] shop-in-store, pickup at the store or have orders delivered.

Operator

Next question is from the line of Paul Trussell with Deutsche Bank. Please proceed with your question.

Q - Paul Trussell {BIO 20732173 <GO>}

Good morning and very solid quarter. You spoke confidently about the holiday season likely to be a healthy and strong one. Maybe just elaborate on your views on 4Q, maybe what you've seen to date and anything that we should keep in mind from a modeling standpoint. And then separately, would be really interested in you speaking to the specific transactions that have taken place in Walmart International and just how we should think about the overall strategy and the way you're managing that portfolio. Thank you.

A - Doug McMillon {BIO 3063017 <GO>}

Paul, I'll start out. This is Doug. As it relates to holiday, let's keep in mind, we've got multiple markets and a lot of different scenarios. But there are some common trends, people are at home more, they are eating at home more and they've all been through a difficult year. So just emotionally. I don't know what you're thinking. But in my family, while it will be a smaller group, we're really looking forward to Thanksgiving and Christmas and New Years and some sense of joy and normalcy. And I think, we'll see that play out as it relates to consumption patterns in the US and beyond. John, if you want to add some things for the US and then we've got Judith on today. And we'll go to her for the International portfolio response.

A - John Furner {BIO 19351533 <GO>}

Sure. Thanks, Doug. Good morning, Paul. We plan for a good holiday season. As Doug said, we are planning for -- what we would describe as the new normal for customers this holiday, which will include staying at home, being in smaller groups. We think, there will be of course more celebrations as groups are smaller all around the country. Our events, which last year would have been more of a singular that we have several events that are planned, a few that are behind us and more to come. We plan these events to be omni-led so they gave customers the option of being able to buy online and pickup in store, buy online, have shipped or ship or shop in the store and we made it very flexible. So customers could do what is best for them. We've called this deals for days, we've had 3 events online already. We've had 2 events in stores and then we'll have more as the season goes on and we're looking forward to the next 10 days have been ready for customers to shop for their Thanksgiving meal.

But overall, we feel good about our plan for the fourth quarter. We feel good about our in-stock and our inventory position in general merchandise. And then I'll turn it over to Judith to talk about the International transactions.

A - Judith McKenna {BIO 4806787 <GO>}

Hi, Paul. Really (technical difficulty) transactions in the last 6 weeks announced out Argentina and Japan completely in line, it's a strategy that we set out earlier in the year with strong local businesses powered by Walmart, and our ability to be flexible in the ownership structures that we have whether they're the public companies that we got [ph] minority ownership or majority ownerships around the world. All three of those, we think position those markets to be very successful. In Argentina, we've divested fully, but in the UK, and Japan, we're retaining a stake in those businesses, as we help them continue on their transformation Journeys as well. We're going to continue to focus on [ph] the market. At the time, our priority markets are clear, India, China and Mexico and Canada, but actually every market that we have plays a role in the portfolio in some way. And I think, the Japan deal is a really good example and that's done (inaudible) really how we can bring together people not only to do a digital transformation for Japan. But more importantly, how much Walmart can continue to learn in that relationship as well and we continue a relationship with them on a commercial basis in respect to providing global sourcing. This is a really new type of model that we're creating for international. We said, we will be clear in our priorities. And I think, we are showing that. We have done that. But at the same time, we still really benefit from all of the good things about being a global retailer, not least of which sharing best practice [ph] and innovation and challenge around the world.

Operator

Our next question is from the line of Karen Short with Barclays.

Q - Karen Short {BIO 20587902 <GO>}

Hi, thanks very much. A couple of questions just related to your US comp. I'm wondering if you could give a little bit more color on what the impact would have been on your comp in this quarter. But I mean probably applies to 2Q as well from the actual reduction in hours and then you did mention that you've extended the hours by another hour, I guess in some stores. Any thoughts on going back to 24 hours? And then the second question I had was with respect to Walmart Plus, would you be willing to provide a little color in terms of what the average ticket is on those transactions, because I think there is some view that it could be very dilutive if the ticket is lower than you would have hoped for?

A - John Furner {BIO 19351533 <GO>}

Hi Karen, good morning. It's John Furner. Let me take the first question on the hours first. Let me first say, I'm really appreciative of the work that our associates have done this entire year. They have stepped up as Doug said earlier -- and served their customers, served their communities and taking care of each other. And I want to start with that because, and this is so important to reiterate that our first priority all year long has been to do whatever we could to protect associate safety, customer safety and serve our communities. And so the reduction in hours in the first and in the second quarter were primarily to ensure that associates were able to cover the stores as needed. We also had changed our leave of absence policy which enabled associates to take up any time they needed, if they weren't feeling where they needed to stay home.

The hours did change in Q3, so there during the 3s [ph], so I wouldn't be able to you give you a number that would say how much it affected the results by, but we do know that the share losses in Q2 subsided, improved in Q3. So we believe that this definitely has a part of it. We don't have any guidance yet on whether we will go back to 24 hours or what point at this point. We will operate 7 to 10 or 7 to 11 depending on what the store is able to handle in terms of staffing and whatever local regulations would allow for.

On the Plus program, as we said earlier, we're excited about the offer. We think it's an important part of the Walmart ecosystem for customers to be available to experience all of the benefits that Walmart has to offer. We want this to be a very friction free experience for the customer and whether the customer is shopping in the store with Scan & Go or using our fuel discounts, which are available at our Walmart gas stations, Murphy, American Express and now Sam's Club. And then finally, be able to get unlimited delivery on food consumables and general merchandise in the store.

We think, it's a really compelling offer that customers will enjoy being part of. And being able to benefit from. The program is new, so we don't have a lot to share at this point and we are still learning. We are focused on the best experience we can possibly deliver for our customers and we're looking forward to the impact that the program will have.

A - Doug McMillon {BIO 3063017 <GO>}

Not be worth repeating the stat we've shared with you in the last few years that when a customer shops us in-store and online, they spend about twice as much and they spend more in-store, those are pre-pandemic stats. We're not updating those at this moment, but it is important to remember, once they're engaged in a digital relationship and their shopping us holistically like that, the value of that customer relationship goes up.

Operator

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

Q - Peter Benedict {BIO 3350921 <GO>}

So good morning, guys. My question is just on the Walmart Health initiative. Just curious, kind of the near-term and longer term plans, maybe how COVID has impacted that? I know it was a hot topic earlier this year, but certainly, other things have come up. So just looking for an update there and what your strategy is. Thanks so much.

A - Doug McMillon {BIO 3063017 <GO>}

Hi good morning, Peter. We remain excited about the opportunity in health and wellness in general, including Walmart Health. We haven't made any changes to our plan. We have opened a few clinics since we most recently spoke and we are excited about the demand that we saw in the first 6 months of the year, and including last year since we opened our first clinic in Dallas, Georgia. We continue to work on our mix and learn about the types of services that we went to offer customers and no change that I would be wanting to make at this point.

Operator

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

Q - Simeon Gutman {BIO 7528320 <GO>}

Hi, everyone. Good morning. So I have two questions, the first one is on market share, the second, just another follow-up to Plus. On market share, I think stepping back, you're obviously having a very good year both top and bottom line despite the challenging in the -- challenges in operating. The -- that you're growing above your normalized rates and your dollars are pretty big, but if you look across the rest of retail, you're starting, you are seeing robust results. And so it suggests, you might not be gaining as much share. I don't think you're losing. I think in food maybe it's partly because the lack of promotions in some channels, but I want to ask you, if you -- when you look at your results versus others, how do you explain the difference -- you meant -- John just mentioned some store hours, is it anything about inventory at this point or maybe the customer not having the same wallet share shift. And then the question on Plus maybe just a follow-up for John if you're willing to share, how it's performing versus expectations? And then anything on the percentage of new customers coming to your -- to the platform?

A - Brett Biggs {BIO 17414705 <GO>}

And let me take the share question, first, Simeon. As we said, our share in Q3. The trended [ph] improve in total food, our general merchandise share has gained in Q3 and also in the second quarter, Q3 did start slower in general merchandise and picked up as the quarter went along. So we were pleased with that. As far as the average ticket and pricing. We are seeing across the tire [ph] box, what we describe as modest deflation, a little bit of inflation in some food categories, but no major change there. Our price gaps did wide in the second quarter versus what they had been in the first and they remain wide in Q3. So certainly there are less promotions around the market and I think our unit growth as mentioned earlier and the transaction size has benefited from those. As far as the Plus business. We are excited about the results. It's really early on, we just launched this in the middle to the late -- latter part of Q3. So we don't have anything yet. We're still learning. We're excited about the offer. We know customers are excited about the offer.

We do serve about 90% of the population within a 10-mile radius and just in the last quarter, we added another 230 stores that can do pickup that brings our total to 3,700 stores, maybe we got 2,700 stores that are now offering what we describe as Express Delivery. And we have examples even just this week of customers who are getting their groceries, from the time of order delivery in under half hour. So we're really excited about the ability to have services like that all across the country in big cities, in small cities and everything in cities and everything in between.

Operator

Our next question comes from the line of Robert Drbul with Guggenheim. Please proceed with your question.

Q - Robert Drbul {BIO 3131258 <GO>}

Hey guys, good morning. I guess the first quick question that I had Doug and Brett, is it true that you guys were tic talking this morning before the call started?

A - Doug McMillon {BIO 3063017 <GO>}

Brett was, I was just watching.

Q - Robert Drbul {BIO 3131258 <GO>}

All right. But my second question then would be, can you talk a little bit about the consumer -- what trends you're seeing with the consumer in terms of pantry loading again sort of move to value versus convenience and your ability to really manage in-stocks in this environment still today? Thanks.

A - Doug McMillon {BIO 3063017 <GO>}

Yeah I'll go first. I think Bob, as you look at what's happening in the US in particular and Judith, you may have comments about outside the US. I think the way to think of this is locally, it really does have everything to do with what's happening with COVID cases in any particular community. I was in stores last week and I saw variance from one state to the other, one location to the other, just depends on how people are feeling in that moment. But what the action is the same as what we saw before. They're just stocking up on paper goods, cleaning supplies and dry grocery, should they need them. And so I think, we're going to be able to respond in this instance, better than we did in the first half of the year, although we're still as a total supply chain, still stressed in some places. It's disappointing to watch [ph] our rationalities and see as many out of stocks as we had in consumables right now. Generally, although it's a whole lot better than it was earlier in the year. So I think, we'll manage through these curves. They'll be localized. We will respond. We got to keep these food and consumable DCs operating. Our logistics team is doing a fantastic job of doing that.

But it feels to me like we'll work through this period of time better than we did in the first wave.

A - John Furner {BIO 19351533 <GO>}

And Doug. I agree. We do see big differences depending on the communities that you are in. I was also been out the last couple of weeks and including the last two weekends. And it really depends on what's going on in the state and the city that we're in. The specific categories where we have the most strain at the present time would be bath tissue and cleaning supplies. Some of our inventory position on hand sanitizer, mask is very good, dry grocery has recovered in many cases, although there are still parts of supply chain that are stressed by components that just haven't been available including things like aluminum and cans packaging. So those things have -- definitely had an impact, but overall, I'm pleased with the improvements in availability, including the fresh meat department. The team there is doing a great job of getting things back in stock, we still see some stress in things like daily bacon and breakfast foods. But in general, there is product available just in store fronts (inaudible).

And then finally, I would just complement our produce team that has just done a great job of sourcing produce and maintain quality and fresh levels throughout the entire year. So the teams are really working hard and I'm really thankful and grateful for the work that our inventory teams and merchandising teams have done at Walmart in the grocery departments.

A - Judith McKenna {BIO 4806787 <GO>}

And maybe just to.

Q - Robert Drbul {BIO 3131258 <GO>}

Sorry, please go ahead. My apologies.

A - Judith McKenna {BIO 4806787 <GO>}

Sorry, maybe just to comment from around the world, which is again, it varies deeply by country. So UK in full lockdown, China pretty much life back to normal. There just the only things to add to John and Doug's comments, eat at home continues to be a trend everywhere. That with -- any which we are benefiting from supply chains around the world to talk about [ph]. But we're also seeing festival seasons. And I would take that as everything from on Christmas through to Diwali and staffing strongly and people being happy with buying things for themselves and for their homes as they go through that period as well.

Operator

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

Q - Oliver Chen {BIO 15320650 <GO>}

Hi, thank you. Happy holidays. Regarding advertising. We're seeing a lot of really great reads and research for your advertising program. What's ahead as this may intersect with Walmart Plus, how it could impact profitability and your views on longer term share gains? I would also love your view on automation and micro fulfillment centers as well as the connected store, if you could update us on key thoughts in the midst of the pandemic and what you're seeing with the consumer and the connected store execution. That would be great. Thank you.

A - John Furner {BIO 19351533 <GO>}

Hey Oliver. Thanks for the feedback on the advertising. We are proud of the team and the work they're doing and there, I think they're doing a great job of getting the message out and the benefit of things like time savings and being able to spend more time with your family and do the things that are important. And we think those are key components of what the Walmart Plus offer has for our customers. Have been able to order your groceries and have them delivered without worrying about whether you have it delivered or not, it's just part of the program even saving time while in store with Scan & Go is a nice benefit as well.

So I think, it's just part of mix. This is a service that we already offer. We've had a delivery business for some time now. That's been growing for some time. I'm really happy with the growth of delivery in the second quarter and the third quarter. There has been growth in both quarters and that's exciting to see. I think the team is doing a nice job figuring how to leverage delivery costs and putting multiple orders in cars. They're building density all across the country and that's exciting to see.

I think the second point to make is our merchants are really focused on the omni customer, and so more and more I hear from our merchants, they are thinking of their businesses in terms of a customer strategy rather than a channel strategy. So the lines are blurring between eCommerce and stores and it's all about serving the customer, the way they want to be served, whether that's letting the customer -- having the customer be welcome to shop in-store, pick up at the store or that -- or delivery. I mean as far as your question on automation, we're still excited about programs that we have going at our regional distribution centers, and fulfillment centers. In both cases, we've got a lot of innovation and the team is doing a great job of figuring at how to deliver to stores and the customer's orders that are not only productive and our variable cost per unit has gone down even though since last quarter, as we mentioned with eCommerce losses, but we're doing a nice job. Have been able to service stores more timely and more accurately.

And then finally, at the local level. We do continue to have innovations that are starting to really work and we're excited about what's in the future when it comes of things like our Alert program that's piloted in New Hampshire and we have other locations planned for that technology. And then we're also evaluating other technologies that would help us, of course, expand our capacity at stores to be able to pick and deliver orders as they come in.

A - Doug McMillon {BIO 3063017 <GO>}

It's been great to see some of the pilots that we've had in terms of automation start to really work. We'll be talking to you guys more about that in the future, but automation will be a big part of what we do. And it will play a role in helping the store experience get better as it reduces the amount of work the associates have at store level just moving freight around. I hope, you can also see Oliver, back to your first question that the company is changing and shaping its business model, the way that we make money today and the way we'll make money in the future will be more multifaceted, whether it's marketplace or advertising, Walmart Plus, Walmart fulfillment services and other things to come in the future. We've just got this great opportunity, this asset, in terms of these customer relationships, any other fiscal assets that we have to monetize it in a variety of ways. And we're building those capabilities. And you can start to see it in our results.

Operator

Thank you. (Operator Instructions) The next question is from the line of Kate McShane, Goldman Sachs

Q - Kate McShane {BIO 7542899 <GO>}

Hi, good morning. Thanks for taking my question. Just from a promotional standpoint, I think you noted last quarter that competitors, particularly in grocery were not promoting as heavily because of the strong demand. I wondered, if you could comment in terms of what you saw with regards to promotions in Q3 and now as we get into holiday for Q4. And just in general, how much price investment impacted gross margins in the third quarter?

A - Doug McMillon {BIO 3063017 <GO>}

Hi Kate. Let me take the first question, in terms of the market. In Q2, we did note that we saw less promotions around the market and primarily that would have been caused by the number of stock outs that we're seeing nationally due to the run-up in what we call the first phase of stocking up at home right when the pandemic began. In the third quarter, in food and consumables, there wasn't much change that we noted from the third quarter to the second. So again, in the quarter, we definitely saw less promotions as we said earlier, our price gap versus your competition wide ending the second quarter and remain wide in the third quarter. The difference in late Q3 and then into Q4 would be the different schedules that we're seeing all around the country regarding holiday events and gift buying. We are excited about the plans that we have in the fourth quarter. As I said earlier, a number of those events have already happened, and we have more planned over the course of the month. I'm really excited about the offer that our entertainment team, our electronics team has put together. We're excited about the game offers that they have.

We're excited about the items that we have in toys. We've got 1300 new items in toys and 800 items that are unique to Walmart in the toy department this year, and we've gotten great feedback from a number of kids and our program that we call Walmart camp [ph] online has also been really successful this year and that gave customers an opportunity to do things at home and spend time together.

So I think that fourth quarter, while we don't have guidance on it today. I think the fourth quarter is definitely planned well, I think the team here at Walmart have done a great job thinking about safety and being able to get customer's options. So they can shop to the way that they want to shop and be able to celebrate their holiday, the way they want to and buy gifts from Walmart and I'm excited about the plan the team has.

Operator

And the next question is from the line of Ed Yruma with KeyBanc Capital Markets.

Q - Ed Yruma {BIO 4940857 <GO>}

Hey, good morning. Thanks for taking the question. You guys have made some really good strides in improving the mix in e-com and adding more vendors to marketplace. I guess, how would you score where you sit today and how should we think about the incremental opportunity that's still remaining? Thank you.

A - Doug McMillon {BIO 3063017 <GO>}

We're just getting started. I think that's the end -- that the question, I mean, we have made progress and I'm grateful for the job that Marc and John and the team have done to build the big marketplace business but we got a lot of upside in front of us and a lot of things that we can do to improve the customer experience and to drive the income for the company.

Operator

Our next question is from the line of Paul Lejuez with Citi.

Q - Paul Lejuez {BIO 6299659 <GO>}

Thanks, guys. Can you tell us how much the improvement in the International segment gross margin was driven by geographic or country mix versus improvements you're seeing in specific markets, maybe you could talk about which market we're seeing the biggest increases in gross margin rate? What's driving that? And just high-level guys, I'm just curious how you're thinking about planning for 2021, again just -- what has been very strong year. Thanks.

A - Doug McMillon {BIO 3063017 <GO>}

Let's take the International question first, Judith?

A - Judith McKenna {BIO 4806787 <GO>}

Yeah, hi. Thank you. Yes. The improvement around the world in gross margin levels, clearly, our biggest market had an impact. Walmart, in particular the UK, and kind of just all showing improvement. They both benefited from (technical difficulty) particularly in the UK the high margin brand [ph]. But also there is a lot of work being done by the teams. And looking at cost to goods savings, underlying initiatives and then we've also seen in some of our eCommerce businesses, a shift into market prices [ph] as well, which has really helped us. So around the world, it's a combination of factors driven primarily by a market, which has been very pleasing to see.

A - Doug McMillon {BIO 3063017 <GO>}

As it relates to planning. We look forward to the memo that you send us to explain it all that if we were to think through it. We're optimistic as I'm sure all of you are about how the back half of next year should start to look a bit more normal. We still have a ways to go to get there and we'll manage through it, as we have been managing through this year. We do have momentum in a number of key areas and the way that I think about it is almost regardless of what the market number looks like or what the economic environment looks like, we're in control of a lot of our own destiny. We know what customers want and we have capabilities and are adding to those capabilities to be able to serve them. So we're on our front foot, we're thinking about this offensively and next year, there'll be tailwinds and headwinds that we're up against, our in-stock will be better. Our ability to service customers through eCommerce including pick and delivery from stores will be better. We will have at least fewer COVID-19 expenses we hope and pray. And so all of those things will navigate as we go through the year, but our mindset going in is an offensive mindset.

A - Brett Biggs {BIO 17414705 <GO>}

And there is, we've talked about before. This is Brett. There is some and Doug mentioned earlier, so many levers, we can pull as a company just given the -- all of the business that we do in various parts of the world, but also the types of businesses that we have in the US gives us I think more flexibility than some competitors and it's finding that balance of we've got a plan, John. With our merchants, but at the same time just remaining flexible to deal with what comes our way but, I'm with Doug. I think we control a lot of that.

A - Doug McMillon {BIO 3063017 <GO>}

I thought Michael's question to kick things off a few minutes ago was a really good one. We did see customers, when we started running out of stocks in the first stage of the stock up period, they ran to local grocers and that's totally understandable. They also tried to shop close to home and went to small stores more frequently. That's also totally understandable and our in-stock struggled. And so when I think about next year, with our in-stock being there, the price gaps that we have. I feel like we've got a great opportunity next year as we look at what's in front of us.

Operator

Thank you. Our next question is from the line of Seth Sigman with Credit Suisse.

Q - Seth Sigman {BIO 17751557 <GO>}

Thanks a lot. Good morning. I want to follow up on a couple of those points focused on online grocery. I think there was a conventional view a couple of years ago that there was a ceiling as it relates to online penetration or penetration of online grocery when using the store, it would just be limited to a point before it becomes disruptive to the store. What are you guys learning about that and if you could also discuss the progress in increasing capacity for online grocery? I know you held it back in Q1 because of inventory, you discussed last quarter, a big pick up in the number of slot. So how is that progressing? And any other efforts to increase the efficiency so that you can support that incremental volume into next year? That would be helpful. Thank you.

A - John Furner {BIO 19351533 <GO>}

Got it. This is John. Thanks for the question. Back to your very first statement, online grocery, where we really reframed online grocery this year to just be online pickup and delivery and more and more we're offering more items in the supercenter that are available for pickup. And the supercenter, which is just a fantastic retail format is also at times in the year operated as a fulfillment center. We had up to 2500 stores that we're shipping from home. We saw hundreds going to the quarter, and the teams has done -- have done a very nice job using all parts of the supply chain to fulfill our eCommerce demand, which will be reflected in the results that we saw in the quarter, a growth of 79%.

As far as picking itself [ph], over the course of the year, the team did struggle in the first quarter obviously with with the number of out-of-stocks that we had and we pulled some capacity back as we focused on getting the stores back in stock. And then as the stores have gotten back in stock. I mean, as we said earlier, we've doubled the number of people that are working in our pickup department up to 140,000, so a very significant increase over the year before. We're using machine learning to figure out the best way to put labor against the slots, also when to pick the slots, and then went to determine what we can fill. So we've got some nice productivity improvements there.

On top of our regular pick system, which is basically the slot system, we launched Express Delivery. That's live in 2,700 stores and we're really excited about the results in the first first 3 quarters of the year with Express. So that's been exciting. And then, looking forward. Every week, now we've got literally millions of slots that are open and available for customers to select from. And we'll keep working on the things that can -- we can do in the short term to gain capacity. And the final thing I'd say is we are excited about what we call micro fulfillment centers. So these would be automated solutions. There is -- there's a storage and retrieval system live at a store just a few miles from here. That we're optimistic about including others that are planned around the country for the next couple of years. So I think, the ability for Walmart to be a real leader in the online pickup and delivery space is real and I'm excited about the opportunities it has for us the next couple of years.

Operator

Thank you. Our next question is from the line of Chuck Grom with Gordon Haskett.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, great quarter, guys. Sorry for the near term question. But there is some news out there this morning from Amazon on the free 2-day delivery on RX [ph]. So I guess, I'm curious what you think about this development and if you could also remind us what percentage of your sales come from pharmacy and I guess, bigger picture, how that business has trended recently and any tweaks you can make moving forward?

A - Doug McMillon {BIO 3063017 <GO>}

Hey, Chuck. I'd just say in general, we're excited about health and wellness at Walmart. And health and wellness had a good -- a great quarter, last quarter. It was one of our best businesses. The team have opened a number of clinics and we have more plans, our optimism about the health and wellness space remains high. Throughout the year, we've been delivering prescriptions via mail. We've done this for some amount of time and then we've expanded the capacity in the summer. So we've got really broad coverage on the ability to deliver prescriptions around the country. And then also during the pandemic, in all stores, all supercenters that don't have a drive-thru, we also launched curbside pickup, so the customers you need their prescription could pick up their prescription outside the pharmacy. And then we've got 4,000 stores now in 30 states that have no contact delivery option. So -- and the team has done a nice job innovating and serving the customer and we just opened another central built [ph] pharmacy here in Rogers, Arkansas that services home and stores. So we're pretty optimistic about the ability for the pharmacy team to continue to innovate and grow with the customer needs over the next couple of years.

A - John Furner {BIO 19351533 <GO>}

Sam's Club has been going through a similar innovation cycle during the pandemic, adding curbside, learning how to do delivery, things have all accelerated there. So kind of back to Peter's question earlier, we're building out an omnichannel health and wellness business, and it will include the big pharmacy business that we have now, vision, hearing, OTC, the things that happen in store and online and an increasingly services.

As you can see through our addition of clinics. So I think, omnichannel and health and wellness will matter every bit as much as it does in the rest of retail. Are we wrapping up there.

A - Doug McMillon {BIO 3063017 <GO>}

So just as we are wrapping up here. Thank you for your question. Really appreciate your interest in the company, we're optimistic about the fourth quarter. Love the position that we're in and just grateful to our associates for a strong Q3 and a strong year. Thank you all.

Operator

Thank you, everyone. This concludes today's conference. You may disconnect your lines at this time and we thank you for your participation.