Q3 2022 Earnings Call

Company Participants

- Brett Biggs, Executive Vice President and Chief Financial Officer
- Daniel Thomas Binder, Senior Vice President-Investor Relations
- Doug McMillon, President and Chief Executive Officer
- John Furner, President and Chief Executive Officer, Walmart U.S.
- Judith McKenna, President and Chief Executive Officer, Walmart International
- Kathryn McLay, President and Chief Executive Officer Sam's Club

Other Participants

- Ben Bienvenu, Analyst
- Bob Drbul, Analyst
- Chuck Grom, Analyst
- Edward Yruma, Analyst
- Joe Feldman, Analyst
- Karen Short, Analyst
- Kate McShane, Analyst
- Michael Lasser, Analyst
- Paul Lashway, Analyst
- Peter Benedict, Analyst
- Robert F Ohmes, Analyst
- Simeon Gutman, Analyst
- Steph Wissink, Analyst

Presentation

Operator

Greetings. Welcome to Walmart's Fiscal Year '22 Third Quarter Earnings Call. (Operator Instructions) Please note this conference is being recorded.

At this time, I will now turn the conference over to Dan Binder, Senior Vice President, Investor Relations. Dan, you may now begin.

Daniel Thomas Binder {BIO 1749900 <GO>}

Thank you, Rob. Good morning, and welcome to Walmart's third quarter fiscal 2022 earnings call. I am joined by 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 U.S.; Judith McKenna, President and CEO of Walmart International; and Kath McLay, President and CEO of Sam's Club. In a few moments, Doug and Brett will provide 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. 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's now my pleasure to turn the call over to Doug McMillon.

Doug McMillon {BIO 3063017 <GO>}

Hello, everyone, and thanks for joining us. We continue to have momentum. Sales were strong throughout the third quarter and we've seen a good start to the fourth quarter. Thanks to all the thoughtful planning and hard work from our associates. In addition to visiting stores and Sam's Clubs in the U.S. this quarter, also got to visit stores with the Canadian leadership team in the Toronto market. It was a reminder that our associates around the world have served others throughout this pandemic with courage and resilience. Our Canadian stores had some great items for Diwali, we sold through Halloween well, and the seasonal areas were ready for Christmas.

In the U.S., we're ready for the holidays too. There is a level of excitement in the year, you can feel it. I've been walking away from these stores with the recurring thought, we're ready, we have the people, the products and the prices to deliver a great holiday season. Around the world, so many families depend on us for food, apparel, home items, TVs and seasonal items, like Toys and Christmas trees. They trust us to have what they're looking for and at the right price. And while this year has its challenges, we're in position to serve them.

All segments saw strong top line gains in the quarter, excluding divestitures and I could not be prouder of our team. They continue to solve problems and move with speed. Walmart U.S. drove a sequential acceleration in comp sales both on a one and two-year basis and continued to gain market share in grocery.

Sam's Club had another very strong quarter as did Walmart International, with China, Mexico and India leading the way. Customers and members are shopping with us across channels and we're making it easier for them. Speed matters, that's why we offer fast same-day delivery to millions of customers around the world. Walmart has served customers across economic cycles for more than 50 years, each one is unique and they require us to adapt. In this latest cycle, the pandemic caused shifts in how customers and members shopped and what they purchased. The long period of sustained demand for goods has stretched supply chains, resulting in out-of-stocks and inflation.

Fighting inflation is in our DNA. Sam Walton loved that fight and so do we. I want to thank our truck drivers, merchants, replenishment teams, our associates that move inventory through the supply chain and our suppliers. They're working together creatively and quickly. We have lots of variables to manage to deliver everyday low prices to customers and simultaneously strong financial results for our shareholders, and we're using them. We continue to make progress on our strategy. The team is moving fast and being aggressive as we build the pieces of our flywheel.

In the U.S. Walmart GoLocal for last mile delivery is an example. We're excited to have the Home Depot join Walmart and Sam's Club to share our white label delivery as a service platform. This service is powered by our proprietary driver platform, Spark Driver, the technology behind it is now available in Mexico as we learn to build more digital products that can be leveraged globally. Spark continues to grow and is now active in 900 U.S. cities, providing access to more than 50% of U.S. households and we're just getting started. We recently enabled a new feature within the Spark Driver App called Shopping and Delivery, which gives service providers the option to shop and deliver customers' orders. So if delivery slots are full at a location, this feature allows us to serve that demand. The Spark platform has a lot of potential in the U.S. and beyond.

Selling advertising is another important piece of the flywheel because it helps suppliers and marketplace providers sell more, while creating a new profit opportunity for us. Globally, we continue to see rapid growth in advertising income led by the U.S. Flipkart in Mexico. We're also making good progress at PhonePe and we're starting to ramp in Canada and Chile. Beyond advertising income, we're creating new ways to gather and analyze data to fuel smarter faster decision-making to better serve customers, members and suppliers.

Earlier this quarter, we launched Walmart Luminate in the U.S., which is a new suite of data products created for our merchants and suppliers to reveal actionable category and item insight. Our sales team is getting started and we're encouraged by the number of suppliers that have already signed up and their feedback. Our work to become a regenerative company continues. We had an offsite recently with over 50 of our leaders from several countries to imagine what more we can do and how we can pick up speed. Environmental, social and governance issues are important to us, and we're committed to continuing our leadership.

In September, we issued our first ever green bond at $2 billion, it is one of the largest yet from a U.S.-based company. Proceeds are to be used to fund projects like renewable energy, high performance buildings and zero waste. While we've been investing in environmental sustainability projects for years, the size and design of this bond is aligned with the bold commitments we more recently made. We hosted our sustainability milestone meeting in October, many of our suppliers, NGO partners and associates attended. We shared a new goal at the meeting to achieve a 15% absolute reduction of our virgin plastic footprint by 2025. We think this goal and others announced at the meeting will move our business in a direction that is good for the planet and good for business by giving our customers the things they love without things they don't.

Now let's move on to segment results. I'll begin with Walmart U.S., comp sales of 9.2% or 15.6% on a two-year stack is remarkable growth. The gains we've seen in market share for grocery and strong back-to-school results indicate our inventory position has improved. Prices in assortment are compelling and customers continue to move away from early pandemic behaviors. We see tailwinds in our results, a strong consumer, a degree of inflation and government stimulus are all factors, but I also like what I see in the core of the business.

Transaction counts in our stores and clubs are growing, inventory is up 11.5%, our price gaps are where we want them and we're innovating in the supply chain and adding capacity, and we're building businesses like Walmart GoLocal, Walmart Connect, Walmart Luminate, Walmart Plus, Spark Delivery, our marketplace and Walmart fulfillment services. Financial Services is another area where we know we can make a difference in the lives of so many. We recently launched bill payment services in our stores as well as the ability to load money to a bank account or prepaid card.

Moving to Sam's Club U.S., comp sales were strong at 13.9%, excluding fuel. Membership is the lifeblood of the club model. Growth in membership income of 11.3% is the fifth consecutive quarter of double-digit. Membership count reached a new record high during the quarter and overall renewal rates were strong across the board, including first-year renewals and those for plus numbers. Both individual and business members are shopping with us across channels and using the digital tools we've developed. The new Don't Forget function with Scan & Go is a great example. It's a completely digital way for us to help members and drive basket size at the same time. Based on a Member Shopping History, we can target items that a member may be forgetting in their trip all through the app and we already see an increase in the number of items in the basket. We're also expanding delivery options at Sam's. We now offer same-day delivery for 440 clubs using our Spark Driver network.

Turning to Walmart International, we had another quarter of strong growth with sales up 10.3% and profit up even higher at 17.5%, excluding divestitures and currency. We ended the quarter in great shape on inventory and price gaps. Back-to-school and other fall celebrations helps drive traffic for us as families began to get back to normal shopping patterns. The festive season is off to a strong start with Big Billion Days in India. We continue to see strong growth in e-commerce. On a two-year stack, sales increased 91% led by Flipkart and China. We've talked about the importance of omnichannel globally and we continue to see the build out of these models across markets.

Our small Sam's Club depots that extend the reach of our large clubs in China helps deliver e-commerce growth of 96% with incredibly fast delivery for everyday items. In Mexico, we continue to expand same-day delivery and Express Delivery orders quickly reach customers using Crowd Sourcing capabilities. And in both Mexico and Canada, the expansion of omni capabilities is driven by technology that we've developed to share across markets, further leveraging our scale.

Our international markets are building flywheels that have common characteristics with each other and with the U.S., which helps us innovate and leverage the technology we're building. Our store and club formats are well positioned. We are moving quickly to add and expand more digital businesses including e-commerce and payments to create new business models. We are innovating for our customers like the recent expansion of Flipkart Super Coins across platforms. We're also making important investments for the future, while delivering profitable growth today. You see examples of these investments in our supply chain in India and Mexico, new clubs in China and store remodels in Canada. The team is delivering on its purpose of driving long-term sustainable growth for the company.

With that, I'll close today by thanking our associates around the world for what they do each day to serve our customers and drive results. The holiday season is here and we are ready. Our teams have been working hard to ensure we have the people, the products and the prices that will help make this season special for everyone.

I'll now hand it over to Brett.

Brett Biggs {BIO 17414705 <GO>}

Thanks Doug. In the third quarter, our momentum continued with strong sales and profit growth in each of our segments, while continuing to accelerate our strategic priorities. We're off to a good start for the holiday season and a good position to continue delivering strong results. Despite the various macro and industry challenges, our inventory position is good, stores and fulfillment centers are well staffed and our price position remains strong. Customers should expect to find the items they want at great values and we are ready to serve them however they want to shop.

Our omni model is a substantial competitive advantage as shopping behaviors continue to evolve. Customers want choices on how they shop and our unique set of assets with a network of stores expanding digital capabilities, robust distribution networks and innovative services very effectively serve their evolving needs. Walmart U.S. comp sales grew 9.2% including nearly 6% growth in transactions with in-store shopping leading the way. E-commerce sales growth was up 8% in Q3, again strong sales gains last year resulting in an 87% two-year stack. We continue to see strong market share gains in grocery this year as well as unit share gains on a two-year stack.

Sam's Club had another outstanding quarter with comp sales growth, excluding fuel and tobacco of 15.5%, including more than 10% growth in transactions and 32% growth in e-commerce. Membership counts had another record high and renewal rates remained strong. International results were impressive, including e-commerce penetration of around 19% as omni services scale across key markets. For example, Canada has expanded online grocery pickup from stores nationwide, while in Mexico customers Express Delivery orders can be shipped via gig drivers in under 90 minutes from 120 stores.

We continue to make good progress on accelerating the flywheel. We're seeing increased contributions from growth businesses such as advertising, e-commerce marketplace and Spark last mile delivery. Our delivery reach is expanding and our scale enables us to monetize this capability offering same-day services to other merchants through our Walmart GoLocals B2B initiative.

Now let's discuss Q3 results. As a reminder, the previously announced international divestiture significantly affect year-over-year comparisons. So my comments today will focus on the underlying business excluding the effect of divestitures. Also COVID costs remain elevated globally, although lower than last year in most markets. In addition, EPS includes a $0.67 negative effect from premiums paid for bond tenders, which allowed us to retire higher rate debt to reduce interest expense in future periods. Total constant currency revenue grew more than 10% to over $139 billion. Walmart U.S. comp sales momentum remained strong up 15.6% on a two-year stack due in part to strong U.S. consumer spending and some inflation. Strength in China, Mexico and India led to international sales growth of more than 10% in constant currency.

Strong trends at Sam's Club continued with comp growth of nearly 31% on a two-year stack, excluding fuel and tobacco. Currency benefited sales by about $1.3 billion. Gross margin rate declined 51 basis points due primarily to increased supply chain costs and headwinds from fuel mix in the U.S. segments as well as format mix shifts in International. However, total gross margin dollars grew 9.6%.

SG&A expenses leveraged 13 basis points, reflecting strong sales and lower COVID costs, partially offset by increased wage investments in the U.S. As a result of these investments, we've seen a great response to our holiday hiring programs with the addition of over 200,000 new store and supply chain associates.

Operating Income, on a constant currency basis, was up 6.3%, leading to adjusted EPS of $1.45. As anticipated, free cash flow for the year is about $8 billion lower than last year, primarily reflecting inventory increases and higher CapEx. We repurchased $2.2 billion of stock in Q3 and $7.4 billion year-to-date, up significantly from last year. I'm pleased with the improvements in ROI even as we've made strategic investments, with reported ROI increasing 80 basis points to 14.5%, which is among the best level in four years.

Now let's discuss the quarterly results for each segment. Walmart U.S. had another good quarter aided by strong consumer spending, stemming in part from government stimulus and inflation. Strong sales trends were led by grocery, health and wellness and apparel, back-to-school category has also performed well along with automotive and holiday to core. We're pleased with the strong momentum in the grocery business as our strong price positioning and omni offerings resonate with customers.

Grocery sales were up nearly 10% as strong unit growth in low- to mid-single digit inflation benefited results. In fact, food sales grew $3.6 billion during Q3, which is a strongest quarterly growth in six quarters. We are continuing to enhance and scale our strategic growth businesses, both national, local partners have shown strong interest in our new

Walmart GoLocal business, while the Spark Driver platform continues to expand nationally.

Walmart Connect advertising sales have increased nearly 240% on a two-year stack. And in Q3, we launched a new demand side platform in partnership with the Trade Desk to expand offsite media offerings. We also added around 21 million items to our e-commerce marketplace assortment during the quarter, significantly increased the number of items available for expedited delivery and saw continued strong growth in Walmart Fulfillment Services penetration.

Walmart U.S. gross profit rate declined 12 basis points, reflecting increased supply chain costs. We're seeing inflationary cost pressures in some areas and our merchants remain laser-focused on taking the necessary steps to mitigate supply chain congestion, while working with suppliers and monitoring price gaps to manage margins appropriately. Lower markdowns and increased contributions from advertising revenue have helped offset cost pressures.

SG&A expenses deleveraged 20 basis points due primarily to investments in wages, but operating income was strong up almost 6%. Inventory increased 11.5% in preparation for what we expect to be a strong holiday season. The steps taken to mitigate transit import delays have positioned us well including adding extra lead time to orders, chartering vessels for Walmart goods, rerouting deliveries to less congested ports and expanding overnight hours at key U.S. ports.

International had a great quarter with double-digit sales growth, strong momentum in e-commerce across key markets and operating profit growth outpacing sales. E-commerce sales in constant currency grew 33% on top of strong gains last year with growth in China, Flipkart and Mexico, particularly strong. We've nearly doubled e-commerce sales in international over the past two years and it's encouraging that our ecosystem is expanding and developing in areas such as digital advertising.

China accounts were quite strong Q3, increasing 16.5% with continued strength from Sam's Club as well as more than 90% growth in e-commerce sales. During the mid-autumn festival, sales were terrific and we saw an acceleration in omni performance with nearly all hypermarket setting online sales records during this event. Flipkart had another good quarter with strong sales growth and favorable trends in monthly active customers and users. An anticipation of the holiday season, the team has doubled fulfillment capacity versus last year with dozens of new fulfillment center locations, more than 1,000 last mile delivery hubs and expanded relationships with Toronto partners to handle large percentage of last mile deliveries.

Comp sales in Mexico increased 6% and grew faster than the market according to ANTAD, with strong consumer spending on categories related to back-to-school and seasonal celebrations. Customer adoption of omni offerings continue to grow and we're seeing a strong response to the launch of Walmart Fulfillment Services with one-fourth of marketplace sales fulfilled through this network. In Canada, comp sales were up 6% and increased more than 13% on a two-year stack. Seasonal sales events were especially strong and omni sales continue to increase. Online grocery is now available in nearly all stores and we've launched express pickup within 2 hours and a couple of stores in Toronto.

International operating income at constant currency increased 17.5%, reflecting strong sales and expense leverage. Sam's Club continue to deliver excellent results with strong growth in sales, membership and profit. Membership income was up more than 11% as we achieved another record and member counts, strong renewal rates and increased plus member penetration. Sam's operating income was up more than 10%, a strong membership income and expense leverage more than offset gross margin pressure from supply chain costs, fuel and inflation.

Now let's turn to guidance. We anticipate Q4 Walmart U.S. comp sales excluding fuel increasing around 5% resulting in over a 6% gain for the full year. Annual adjusted EPS is expected to be around $6.40 for the year, representing 17% growth. We continue to make good progress on our capital investments, but we now anticipate the timing of some investments originally planned for this year will flow into next year. As a result, we expect full year CapEx to be around $13 billion versus our original guidance of $14 billion. In closing, I'm very encouraged by the Q3 results and I'm optimistic about Q4. I continue to be very excited about the evolution of Walmart into a one of a kind omnichannel company.

Thank you for your interest this morning, and we'd be happy to take your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Mr. Lasser. Please proceed with your questions.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. When you laid out your algorithm of generating 4% top line growth and better than 4% operating income growth, inflation wasn't nearly as part as it is today, particularly with respect to wage inflation. So looking out of the horizon over the next several quarters, how does the current environment impacts Walmart's ability to sustainably generate this algorithm into next year, especially Brett as I think you just mentioned that some of the investments you were going to plan to make this year have been delayed into next year?

A - Brett Biggs {BIO 17414705 <GO>}

Hey, Michael. It's Brett. Yeah, I think as we -- the algorithm we talked about last year, there were couple of things we mentioned, one was at the time also we didn't see a stimulus coming -- didn't anticipate stimulus coming which ended up coming. But I would look at that more as a mid- to long-term algorithm, which I think is the way we portrayed that when we discussed it. Certainly right now, we're seeing inflation in areas and some of that's demand driven and some of that's supply driven. Over time, things will likely work themselves out, but the context of how we think about the longer-term growth of Walmart has not changed.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. And my follow-up is for Doug, Walmart build a lot of new capabilities in the last couple of years like growing digital ad business and driver delivery network and online membership program. These new muscles are driving significant growth but they're coming off relatively low base. So does Walmart need to make any substantive changes culturally operationally and how it deals with stakeholders by consumers or vendors or influence the ability to further gain scale in these areas or are they operating at the level that you would expect at this point?

A - Doug McMillon {BIO 3063017 <GO>}

Thanks, Michael. That's a good question. The thing that comes to mind is the change that has to happen and has happened to an extent and continues now related to working in a more digital fashion. We use a phrase here that's called Four in a Box, which is an agile way of working with customer, product, design, technology, engineering, all around the table, designing omnichannel outcomes for customers and (Technical Difficulty) digital fashion. We use a phrase here that's called Four in a Box, which is an agile way of working with customer, product, design, technology, engineering, all around the table designing omnichannel outcomes for customers and members.

Historically, if you look back years ago, the company would have operated in specialized silos, merchandising, operations, finance, logistics, et cetera. And the teams learned in recent years and they're still learning how to move faster again with the end in mind, design with that outcome. And that enables us to put technology to work in a way that is truly omnichannel, not siloed. Customers and members expect that, we've got unique opportunities to deliver that, but the change inside the company has to happen to enable it.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you.

Operator

Our next question is from the line of Steph Wissink with Jefferies. Please proceed with your question.

Q - Steph Wissink {BIO 17692025 <GO>}

Thank you. Good morning, everyone. I wanted to give you guys a chance to talk a little bit more about how you activated your supply network and also you're hiring tactics for seasonal labor. Couple of the numbers that struck us in the release where the inventory level and the labor count. If you could just talk a little bit about that 11% inventory increase, if there is any price in there that we need to be conscious of and then 200,000 hires across. I think you said stores and supply chain, but maybe give us a sense of how that balance, where that labor resides relative to how your business has shifted more omnichannel? Thank you.

A - Doug McMillon {BIO 3063017 <GO>}

This is Doug. I think for that answer, we need to get John Judith and Kath to respond because the supply chain and hiring challenges are around the world. John, do you want to kick it off?

A - John Furner {BIO 19351533 <GO>}

Yeah, love to. Good morning. First, we wanted to make sure that we were positioned well for customers, it's an important time of the year and general merchandise and the food businesses as our customers prepare to celebrate holidays all across country and we took a lot of steps early in the year to try to get ahead of what we thought could be some congestion and some other supply chain pressures that we've been facing throughout the year.

Some of the things that helped us in the quarter, Brett mentioned a couple of things like chartering vessels, ensuring that we were forecasting appropriately and then managing the labor across each and every piece of the supply chain has been paramount to being able to deliver an increase in inventory, as you noted of over 11%. Certainly, there were pressures all along the way, but I would just complement the teams at Walmart that operate the supply chain and not only general merchandise, but our food networks, both networks have been running extremely well, there's a lot of volume going into networks and the teams have been very innovative and approaches to solving these problems.

The supply chain is very complex and there have been a number of places where we've seen acceleration that would be in throughput, input -- inbound from our vendors and then outbound to our stores and fulfillment centers has been extremely strong.

A - Kathryn McLay {BIO 20989984 <GO>}

From a supply chain perspective for international, clearly, each of our markets is in a slightly different position, but many of the actions that John's described apply globally around the world. But I take someone like Mexico, that market is about 93% domestically sourced. So those pressures are slightly different and depending on the categories. We spend the last couple of years, expanding some of our supply chain capabilities and that's really stood us in good stead and then you've seen us ramping up our hiring in places like Canada, pre the holiday season as well, that's quite normal for us and we've had no issues with being able to do that.

We're doing some good work tugging on with some of the chartering of the vessels that the U.S. is doing and I think this is where our scale and capabilities really come in to play. And from an inventory perspective, we're up about 10% year-on-year that's ex divestitures. Actually, so that's in divestitures, ex divestitures, it's even higher than that. And for the first time, I'd tell you that's a good thing because it actually positions as well as we're going into the peak of the holiday season.

Yeah, I would only just add on to say, strength of this is to leverage the Walmart supply chain that's to our advantage and we also work deliberately this year to pull forward inventory, so we landed Halloween earlier, we landed Christmas earlier. So everything has just shifted up a little bit, which has put us in a good trading position.

Operator

Thank you. Our next question is from the line of Karen Short with Barclays. Please proceed with your question.

Q - Karen Short {BIO 7215781 <GO>}

Hi, thanks very much. I just wanted to just ask a short-term question. So looking at your guidance for 4Q, wondering if you could give some puts and takes on gross margin and SG&A. I appreciate there are a lot of moving parts on the wage front but the implied 4Q flow through on EBIT is significantly higher in 4Q than it was in 3Q. So that's my first question.

A - Brett Biggs {BIO 17414705 <GO>}

Yeah. Karen this is Brett. I think probably you answered your question a little bit that there is -- there are puts and takes as we look at the quarters or has been for the last eight or nine quarters and there is really for every quarter. And as we look at all the potential things that we see in the supply chain as we see in the labor market as we see in pricing, the EPS guidance that we gave is kind of amalgamation of all of those things. Bit of a different mix in Q4 to of what we'll sell.

Operator

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

Q - Peter Benedict {BIO 3350921 <GO>}

Hi, guys. Good morning. I -- kind of a question just around Walmart's positioning during periods inflation and recognizing that this is a level of inflation you haven't seen for a very long time, can you just, Doug, maybe take us through how the business historically at least has responded or how customers have behaved, are there trip changes, is the trade down or do you get access to new customers. Just curious your kind of perspective in the event that this inflationary environment persist for longer?

A - Doug McMillon {BIO 3063017 <GO>}

Yes, sure. Hi, Peter. I was just thinking about Judith because she was reminding us this week, just how much inflation we've experienced inside Walmart around the world over time. We haven't seen this kind of inflation in the U.S. for quite some time, but we have operated in markets where we've seen this basically forever and even more extreme, so that experience is helpful. And we do start with wanting to keep prices low. The purpose of the company is to save people money and help them with a better life and we get excited about trying to do that. And the company is kind of hedged well, if you think about it, with an inflationary environment, there are things that come along with that. And in a deflationary environment, we can lead down and we're a low-cost operator and we can take advantage of those situations.

So in this case, our cost inflation is higher than our retail inflation and that's what we would want, but we've got lots of flexibility as we monitor price gaps to decide what we do with general merchandise, what we do with apparel for example, what we want to do with beef with the inflation that's happening there and it becomes a mix management exercise with us trying to manage serving the customer and member well, managing the bottom line, we would care a little less about how the gross margin and SG&A balance out as we would what the net looks like. And so we're managing in that fashion and that's what you can expect us to do going forward.

Operator

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

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, everyone. Good morning. So I guess I'll ask a multi-parter since maybe we're only getting one. First on gross margin, the down 12 and the mention of the supply chain pressure, how should we think about it being maybe a peak point in pain in terms of supply chain costs and how it'd lead into next year? And I thought I think someone I don't know if it was Katherine or Judith mention the buying forward of inventory, is this inventory just owned further upstream in the supply chain or it's already in your DCs and stores that can be deployed?

A - John Furner {BIO 19351533 <GO>}

Hey, Simeon. It's John, let me take the first part of the question and then we will handle the second part together. As far as gross margin, we start all these conversations with what's the right value for customers given our position in the marketplace. And we've been pleased with the results in terms of price gaps over the last 18 months, we are in a better position than we were before the pandemic and we intend to keep our price gaps that way.

Now as Doug mentioned, our cost inflation definitely is higher than retail, so we will hold on moving any retails as late as possible. And what you saw during the quarter in the third quarter, more specifically in gross margin were cost that came through in terms of supply chain that would be everything from our domestic supply chains, labor, international supply chains as well and we may have benefits of lower markdowns and higher sell-throughs that would include back-to-school. We had a very good back-to-school season, our Halloween sell-through, both in food and general merchandise were very strong, and we see customers who are celebrating. We're pleased with our position as we go into Thanksgiving, opened up stores around the country and our feature mix looks much better than a year ago, we definitely a holiday feel.

Last year, we were pretty reliant on things like snacks and beverages to fill space and we were having inventory shortages. So Simeon, I feel really good about the positioning going into the holiday season, we're proud of the 11.5%, as I mentioned a moment ago. But many ladies and gentlemen, all over the country, have worked very hard to make that number come to reality, including managing each piece which is both offshore and domestically. I think the big advantage that Walmart has in times like this is about two-thirds of what we source is sourced from the United States here in the country, so you've got a lot of flexibility in terms of being able to balance this out.

A - Kathryn McLay {BIO 20989984 <GO>}

I'd probably just add, it's Kathy, to say it's a little bit member sentiment as well as supply chain. So we saw last year and again this year the member sentiment of wanting to participate in seasonal event early. And so we took advantage of that and brought in the inventory earlier. We bought up 100% in Halloween costumes, we bought them in earlier, we set them and we sold through them. I think Christmas, we've already had healthy sales for, the rest of the inventory is in country and on its way to the club.

So I think that's what we're seeing both the member sentiment and that's trying to pull-forward from a supply chain perspective to make sure we can see it, we've got on access to it.

A - Judith McKenna {BIO 4806787 <GO>}

I would maybe just add to that, it's Judith, that we are prioritizing flow around the world and have been doing for some time. So those products which we know that customers and members need most, making sure that they've got places on the backfills when it's the international supply chain to bring them in. So in addition to people wanting to buy earlier, we've also been really thoughtful about how that product is coming in as well.

A - John Furner {BIO 19351533 <GO>}

One of the most important things that happened quite a few months ago is we all kind of held hands and decided to be aggressive. So the seasonal businesses that we're driving now, we made a call on that maybe in some cases a year ago, and I think that helped us in terms of quantities, getting them through, getting them through earlier and I think it's going to play out that way, I think it's going to be really strong. As it relates to whether its peak or not, Simeon, there are variables like what happens with the virus, is the market going to continue opening up and people will consume services, travel and all those kinds of things and what does that mean to goods.

So there is a demand side of this as well as the supply side of it, and I don't know that anybody can call exactly where the peak is going to be. But it doesn't really matter to us, we're going to manage through regardless of what happens and when we get an opportunity to take rollbacks, we're out there asking suppliers even now do any of you want to get aggressive and swim upstream and take prices down while prices are going up to gain share and we got so many suppliers to work with and choose from that you find people and some categories that can do things and as the months progress, we expect to find more of them.

Operator

Our next question comes from the line of Kate McShane from Goldman Sachs. Please proceed with your question.

Q - Kate McShane {BIO 7542899 <GO>}

Hi, good morning. Thanks for taking our question. It was mentioned in the prepared comments and the presentation about the impact of stimulus in Q3, and I was wondering if there was any way in which you can quantify how much stimulus had an impact in Q3 versus Q2 realizing of course that we're getting further away from initial stimulus and what you're thinking of contribution of stimulus could look like in Q4?

A - Brett Biggs {BIO 17414705 <GO>}

Yeah, Kate. This is Brett. I guess pretty challenging to try to quantify that impact with some of the other impacts that we're seeing as well. Obviously, there are some parts of the stimulus that wound down in Q3, things like child care credits that kept going through Q3, but demand is really strong, unit demand is strong, all our stores were crowded. So we continue to see good demand, and I think as you converse your question stated almost as we get further and further away from stimulus. I think it makes us feel better and better about the demand for what we're doing.

A - John Furner {BIO 19351533 <GO>}

And Kate, specifically in the U.S. -- good morning, it's John by the way. Specifically in the U.S., we certainly see a consumer that has a strong balance sheet. We see spending levels higher, we see demand higher, traffic being up 5.7% in the quarter, is an encouraging sign. And then having categories like apparel lead the business which is discretionary, our apparel team has done a great job positioning that's going into the back half of the year with new technology, new product. Having a apparel lead is certainly encouraging. And then also we're really proud of the results in food with two-year share gains and unit accelerating retail gains, I think gives us an indication of how the consumer is feeling and how they're going to be spending the rest of the year.

A - Doug McMillon {BIO 3063017 <GO>}

It seems like the most pronounced thing we saw would be in hiring like when the stimulus dollars started to go away, the hiring situation changed faster. We saw people come back in a matter of weeks. We were back to being staffed.

A - John Furner {BIO 19351533 <GO>}

Yeah, that's right, Doug. More pronounced on the demand side. Yes, it certainly was and certainly felt the impact of that early in the year when the Delta Variant began and then in the last quarter or so, we've added close to 200,000 people in the workforce, we're really excited to welcome 200,000 new associates to the company, about 25% of those are in the supply chain and another 75% are stores and there are other areas, but that's been done to meet demand. And again, we're excited about our positioning when it comes to people, product and our pricing.

Operator

Our next question is from the line of Bob Drbul with Guggenheim Securities. Please proceed with your question.

Q - Bob Drbul {BIO 3131258 <GO>}

Hi. Two questions from me. Good morning. I guess the first one is, can you share a little perspective on the Walmart Plus Membership program and what you've learned so far and how you feel about it? And the second question is, can you talk about I think the 21 million items you added in the marketplace, I know that's been a big focus for you guys. So just love to hear sort of where you think you are at this point? Thanks.

A - Doug McMillon {BIO 3063017 <GO>}

Sure, Bob, good morning. First really excited about the Walmart Plus program. We launched it just over a year ago with some really core values for the customer, which include unlimited delivery primarily from stores, but that doesn't include the e-commerce. The program also offers fuel discounts and Scan & Go. And then most recently, we offered early access to customers plus members who are shopping on our holiday events. So our plus members now have about a 4-hour window to be able to access product ahead of the market and certainly seeing great results from that.

Plus is a really important part of our growth strategy over the long-term. We know once a member -- a customer becomes a member and typically those are members that are joining who already pickup customers and we know their spend increases, and then our first place wallet share grow. So looking forward to the progress that we'll be able to make of that in time.

And the second part of your question, could you repeat?

Q - Bob Drbul {BIO 3131258 <GO>}

Just some perspective on the e-commerce marketplace to 21 million new items, I know that's been a focus. So just where you guys think you are at this point?

A - Doug McMillon {BIO 3063017 <GO>}

Yeah, we're currently about 160 million items available. So 21 million growth in the quarter is a really nice gain and we certainly see high demand for marketplace sellers and one of the services that we're excited about is Walmart Fulfillment Services. We can scale that business just about as quickly as we'll be able to add capacity. So got a lot of great plans in the supply chain. We've talked about supply chain in a number of times this year, but we've got a lot of innovation and investments in the supply chain that we're very excited about to add capacity for the overall network. But this certainly will include and support our marketplace sellers and have a great seller value proposition as we look forward.

Operator

Next question is from the line of Ben Bienvenu with Stephens. Please proceed with your question.

Q - Ben Bienvenu {BIO 18962123 <GO>}

Hey, thanks. Good morning. I want to ask sort of two-part question related to Brett your commentary around ROIC and some of the teams broader commentary around wage investment relative to inflation. You're at one of the strongest ROIC metrics that you've seen in some time. You're talking about -- it sounds like being pretty competitively position relative to hiring and being able to staff up back to full staffing as the stimulus fell off. You've also been investing in wages, I'm curious with all of those variables in place and inflationary backdrop, how do you feel about your level of investment around wages and into the organization? And do you think that we're in an environment where you can deliver against the productivity loop that we are also focused on at the start of this year?

A - Brett Biggs {BIO 17414705 <GO>}

Yeah. Hi Ben. How are you doing? I'll go back to really what we talked about in February which capital on a question earlier. I still feel really good about the long-term algorithms mid- to long-term algorithms that we discussed in February about being able to grow operating income faster than sales as a company going forward. And now we pretend to, I think shareholders over time being pleased with the direction of ROI. We have some capital to invest and Jon's talked a lot about that particularly on the U.S. side on supply chain and we're going to do that because we think it's going to help us long-term on both the top line and bottom line.

But I am pleased with where we are from an ROI standpoint, we're focused on it. And I think over time as you continue to grow as a company, one of the things we mentioned in February was the importance of automation and we'll be talking more about that in the future, but if you just go back and review what we said there we've got opportunities and distribution centers, fulfillment centers around the world to deploy new technology that will help us with productivity and that will take some capital investment, but if you look at what it delivers on the other side for customers and members as well as from a productivity point of view, we continue to be excited about that.

A - John Furner {BIO 19351533 <GO>}

And last thing I'd Ben just certainly the focus on top line Doug mentioned a few minutes ago, but we made decisions about over a year ago to certainly be aggressive with inventory positioning and the team is really focused on top line growth. One of the fun things in retail is adding up the score every day and that starts with your revenue and with revenue growth we are in a position where we can leverage our fixed cost. And then as you've heard all throughout the call this morning, then in the middle we can manage, we've got a team who are great at managing the middle, in the middle it include things like cost, gross margins, wages, the other factors in the middle. But overall, we're happy to position and ability to manage, and last thing I'd say is, we're excited about the investments in wages and associates and this last round positively affected about 565,000 people and it's a really large number, 565,000 people got a raise and we're proud to be able to be in the position to do that.

Operator

Our next question is from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, thank you. Great quarter. Brett I was wondering if you could just unpack some of the moving parts on the third quarter U.S. gross margin compression of 12 basis points. And I guess, looking ahead, how you see that margin playing out in the fourth quarter?

A - Brett Biggs {BIO 17414705 <GO>}

Yeah. Thanks Chuck. We didn't give guidance in any specific lines on Q4, but I think it demonstrates again, so we've said for many years just all the levers that we have to pull as a company to be able to for a P&L to work at the same time that we're serving customers in the way that we want to. And really Q3 would be no different from the standpoint of levers moving one way or the other certainly at supply chain, cost pressures just some input cost pressures. But then when you get the demand that we're having at least a lower markdowns fuel, was a pressure and Q3 sometimes it's a positive sometimes it's a negative. Feel really good about our advertising business, John and the growth that we're seeing in the U.S., but also globally.

So it's all of these things that come together. And as a management team, cost side and margin side it's up to us to manage those pieces in a way that gets to the results that we had in Q3 and the results that we've guided for in Q4. So we've managed through a lot of different environments over the last eight or nine quarters in particular and feel good about this team's ability to continue to do it.

Operator

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

Q - Edward Yruma {BIO 4940857 <GO>}

Hey, guys. Thanks for taking the question. A quick two parter of me, I guess, first, you guys have added a lot of capabilities and uses of AI. Really interested in understanding how it's made you change, how you managed the business, have you been able to get faster? And then as a follow-up on marketplace nice growth in assortment, it does seem like a lot of marketplace participants are selling items that are out of stock in the core Walmart business. I guess how is your view on kind of marketplace in terms of enhancing assortment versus offering consumers products that may be sold out at Walmart? Thank you.

A - John Furner {BIO 19351533 <GO>}

So let me take it. And good morning Edward, this is John. Couple of things on your first question, it's about capabilities. First, the team has really changed the way they work over the last couple of years and we mentioned a few minutes ago a more digital way of working, which we call in the business Four in the Box. And quite simply, we look for customer problems, associate problems, friction and the environment. And then we assemble a team of people which would include some one representing the customer, the business, product, technology, design and these groups work through each of the problems and create digital products to take the friction out.

Along the way, the real benefit is the data that's generated from these products and one example is we're managing our backrooms of super centers and they've been markets on the country using computer vision and augmented reality to not only know what's in the backroom, but what can be moved to the floor and we use AR augmented reality is a way for our associates to know how is a direct work and from that we generate literally billions of pieces of data every week and it's helping us with overall inventory management and I think our in-stock positions reflect that work as an example.

Second on the marketplace, we've taken more of an open approach on the marketplace and we are ensuring that each of our search and recall algorithms are working on behalf of the customer. What's really important retail is knowing your customer, understanding the customer's intent and then taking the catalog whether it's 1P or 3P and matching the items that they are looking for and then it's up to the team here to execute. We've got a really clear customer value index that we think about each and every day online and we measure ourselves to that.

So we're really centered on, as I said a couple of times this morning, really centered on revenue growth, focused on the customer and then we'll work through the other pressures, as Brett mentioned, like we have the last eight or nine quarters.

A - Doug McMillon {BIO 3063017 <GO>}

We're using ML and AI to do a number of different things. We used it to help adjust to the pandemic and use the stores as fulfillment hubs. We used it to predict the basket smart substitutions or in-stock assistant is AI powered. And this modernization that we've been talking about with you guys in previous meetings is continuing, which unlocks more capability to use that data. We've moved to 153 petabytes of data to the cloud so far, and we've got room to grow there and we can put data and machines to work in ways in this company that we've not yet done, but we are making progress.

Operator

Thank you. (Operator Instructions) Our next question is from the line of Rabi Ohmes with Bank of America.

Q - Robert F Ohmes {BIO 1541955 <GO>}

Good morning, guys. I'm going to break the rule on the one question. Just to let you know ahead of time. Doug, I was hoping can you frame the digital advertising opportunities for us a little bit both maybe U.S. and International, you guys I think have mentioned it quite a bit on this call. How big is it now, how big can it get in ways you're developing? And then just my add-on question was just I don't think you guys spoke about the gas prices rising and maybe remind us maybe, John, you could remind us the gas price impact on the customer outlook for Walmart, which is going up so much?

A - Doug McMillon {BIO 3063017 <GO>}

Robi, I would expect you to break that rule. As it relates to digital advertising, we are really excited about it. Obviously, we're coming off a smaller base than some others, we shared that the two-year stacks 240% in the U.S. At some point, we may share a number with you, we're obviously talking about that. The thing I'm excited about is happening everywhere. I mean, Judith is driving an advertising income business around the world and this flywheel that we showed you guys in February is coming to life across markets in a way that generates a different business model that will change the company in the long-term and it's happening and we're excited about the back, we've got traction in number of different areas.

Gas prices are a concern, they're a concern not just in this country, but everywhere, they're up dramatically versus a year ago and the customers had money and at some point that's going to come to an end, hopefully, that's a gradual process and hopefully gas prices come down and we sell a lot of fuel in both Walmart U.S. and Sam's. We're trying to help keep those prices down.

A - John Furner {BIO 19351533 <GO>}

I'd just pick up a couple of things, Robi, as excited about the momentum I'd like the way the team has positioned the business and call it Walmart Connect can expire sellers and customers on the platform and that's really important that everything we do is centered around the customer. In the last quarter, we added a new Chief Revenue Officer, Seth Dallaire, we're excited to have Seth on board and looking forward to the impact she'll be able to make and he ads business. And as I've said on fuel, certainly we're watching the pricing in fuel where we can offer value, we will and we do. But we know that American spends a large percentage of their income on food and energy. And so with pressure on energy prices then certainly as I pass to the team had to do everything we can to keep prices low into high inflation and the team's doing a nice job of that.

A - Judith McKenna {BIO 4806787 <GO>}

It's Judith. Maybe just on our tax on International. One of the other things to add is the way that we're sharing technology but also capabilities around the world. So as that flywheel builds out using the capabilities that we're building in different markets to support markets earlier in that journey is really important. So for example, the Flipkart AdTech platform which has developed and really quite mature, which is still not in Chile, for example, whereas Walmart Connect that program is deploying in Mexico and Canada. So another great one of these areas where not only is it benefiting all of the markets pretty much around the world, it's also ultimately being built for share capabilities.

Operator

Thank you. Our next question is from the line of Paul Lashway with Citigroup. Please proceed with your question.

Q - Paul Lashway {BIO 22388950 <GO>}

Hey, thanks guys. Could you talk about cost inflation on the grocery side of the business versus general merchandise. What are you seeing on each and how do you think that compares to what competitors might be seeing and what you expect them to do in terms of passing it through to the consumer and how does that influence your decision about pricing? Thanks.

A - John Furner {BIO 19351533 <GO>}

Good morning, Paul. This is John. First as we said earlier, our unit growth in grocery is growing faster than dollars and that's a position we would like to stay in as long as we possibly can. We want to keep prices low for customers all across the business and we'll be the last to go up. So we're happy with our price positioning, we see gaps that are wider now than they were before the pandemic began and we intend to maintain that position.

As far as the mix goes, it's relatively even across the business so there aren't areas with probably the exception of the beef category that really stand out from grocery to general merchandise, but we've got solid growth in general merchandise as well, leading the business is apparel, our health and wellness business has been strong. So the super center and the overall business has an ability to mix that's quite helpful. And in the last quarter, part of the margin compression we were down about 12 basis points was benefited by mix, was benefited by higher sell-through and then was also benefited by lower margins as a result of those sell-throughs and then we had supply chain costs that came through. So the team at Walmart have a broad portfolio of categories and a broad portfolio of levers that they can use to keep prices low for customers.

Operator

Thank you. Our next question is from the line of Joe Feldman from Telsey Advisory Group. Please proceed with your question.

Q - Joe Feldman {BIO 4772233 <GO>}

Hey, guys. Thanks for taking my question. Wanted to go back to something you guys mentioned earlier in the call, I think Doug in your prepared remarks, you mentioned seeing the pandemic causing shifts in shopping behavior, which we all talked about a lot and then a little later I think you guys talked about seeing some of those behavior shifting away from what we saw during the pandemic, and I was hoping you could share some thoughts on basically what you're seeing and what you expect to stay with for the long-term in terms of some of these behavior changes in terms of shopping?

A - Doug McMillon {BIO 3063017 <GO>}

I think pickup and delivery around the world will grow and the step change that occurred will stay and then grow from there probably at a lower rate. That's what we're seeing here, but the store traffic is the biggest issue, when pandemic enable people came back to stores and I think they like stores, they want to have that experience, they enjoy seeing merchandise being around each other and that's why omnichannel makes so much sense.

So grateful for that. There are other things like Telehealth that will persist forever, the goods versus services trade-off that happened during the lockdowns and during the heavier pandemic period, we're definitely a big deal, we'll see how that plays out over time. People are eating at home, I think they've enjoyed that and they're going to do more of that and that gives us an opportunity across all of our formats around the world. Is there anything, any of you would add to that?

A - John Furner {BIO 19351533 <GO>}

I think that's comparative.

Operator

Thank you. At this time, we have reached the end of the question and answer session. I'll now turn the call over to Doug McMillon for closing remarks.

A - Doug McMillon {BIO 3063017 <GO>}

Yeah, I'll just wrap up by saying that we appreciate your attention on Walmart and hopefully what you can see is that the business is changing. We can sell customers and members things in a variety of ways, we can make money doing it, the business model is changing, the digital transformation is underway, this is a different company than it was and we've got a lot of runway in front of us. We're looking now at our input metrics, we're not just enjoying the benefits of some of these tailwinds and feeling like we're suddenly a company that's arrived. We're paying attention to net promoter scores, we're working on the things underneath that will enable us to continue to grow regardless of what the environment's like. There'll be a point in time some point in the future where you guys will we asking to about deflation and you'll be asking us about how we're going to grow share and we're focused on growing share today and in that environment. We run the company for the long-term, manage it for the short-term and really proud of what the team is doing to make that happen and grateful to our associates. Have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
