

## Q1 2022 Earnings Call

### Company Participants

- Brett Biggs, Executive Vice President and Chief Financial Officer
- Dan Binder, Investor Relations
- Doug McMillon, President and Chief Executive Officer
- John Furner, President and Chief Executive Officer, Walmart US

### Other Participants

- Bob Drbul, Analyst
- Chuck Grom, Analyst
- Edward Yruma, Analyst
- Karen Short, Analyst
- Kate McShane, Analyst
- Kelly Bania, Analyst
- Michael Baker, Analyst
- Michael Lasser, Analyst
- Paul Trussell, Analyst
- Peter Benedict, Analyst
- Robby Ohmes, Analyst
- Scot Ciccarelli, Analyst
- Simeon Gutman, Analyst
- Steph Wissink, Analyst

### Presentation

#### Operator

Greetings. Welcome to Walmart's Fiscal 2022 First Quarter Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Dan Binder, Investor Relations.

#### Dan Binder {BIO 1749900 <GO>}

Thank you, Rob. Good morning, and welcome to Walmart's first quarter fiscal 2022 earnings call. I'm joined by a few members of our executive team, including Doug McMillon, Walmart's President and CEO; Brett Biggs, Executive Vice President and Chief

Financial Officer; and John Furner, President and CEO of Walmart US. In a few moments, Doug and Brett will provide you with an update on the business and discuss first 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 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](http://stock.walmart.com).

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

### **Doug McMillon** {BIO 3063017 <GO>}

Good morning, and thanks for joining today's call. Our results for the first quarter were strong. We're pleased with our sales momentum and adjusted EPS growth of 43% versus last year. We had a strong performance in all three segments. As the pandemic continues, it's impacting the countries where we operate in different ways, so our teams are adapting to overcome the challenges and deliver the strong results we're sharing today. We continue to be grateful to all of our associates for their dedication to serving others.

2021 brings its own unique challenges and uncertainty, but overall, my optimism is higher than it was at the beginning of the year for several reasons. In the US, economic stimulus is clearly having an impact, but we also see encouraging signs that our customers want to get out and shop. Our execution is improving despite the hurdles presented by the pandemic. The second half will likely have more uncertainty than a normal year, but we like our position. Our stores are getting stronger and our e-commerce capabilities are expanding, as we continue to grow. Customers will decide how and when they want to shop and they'll find us ready whether they want to shop in-store, pick up an order or have it delivered.

Key elements of our strategy are coming together nicely. We saw an acceleration of traffic in our stores, gained market share in grocery, improved in-stock levels and grew e-commerce sales globally by 43% in constant currency, excluding recent divestitures. Global e-commerce penetration now represents over 12% of total Company sales, an increase of 340 basis points over last year. Looking ahead, we'll navigate the supply chain challenges and inflationary pressures, whether that's in cost of goods or wages. We'll monitor our price gaps and adjust as appropriate with both customers and shareholders in mind.

As it relates to COVID-19, the past several weeks have been more challenging in some countries India, Canada, Chile and South Africa are priorities at the moment. Supporting our associates is our primary focus, but we're also investing our resources to support the

countries as we find opportunities to do so. In India, we're donating oxygen concentrators, PPE and financial support.

When it comes to helping people get vaccinated, we're engaged in multiple countries. In the US, we've administered millions of doses. We're taking steps to encourage our associates and everyone to become vaccinated. Even CDC guidance, our US associates that have been vaccinated can now work without a mask if they choose to, and we've added a cash incentive as one more step to encourage vaccinations.

All of our Walmart and Sam's Club pharmacies in the US are administering vaccines and we can provide them without an appointment. We've also collaborated with national and local organizations to support more than 200 community events across the country so far. In India, we facilitating vaccinations for our associates and their households, and our Flipkart and PhonePe contractors, more than 200,000 people. Across the countries where we operate, we'll keep looking for more places to make a difference.

This pandemic won't be over until it's over for everyone. In addition to combating the pandemic, we also announced a new commitment to US manufacturing during the quarter. Over the next 10 years, we've set a goal to purchase an additional \$350 billion on items may grown or symboled in the US. We estimate this commitment will create more than 750,000 new American jobs and avoid 100 million metric tons of CO2 emissions.

We also want to make it easier for manufacturing in the US to flourish, that's why we're launching an initiative called American Lighthouses. We'll bring together partners from the supplier community, academia and government among other groups to identify and overcome top-down barriers to US production. We also have other exciting news to share as we continue to invest in the technologies of tomorrow. In collaboration with Engie North America, a power generator and services company, we're adding more than 500 megawatts to the US renewable grid through three separate wind projects. Together these projects are expected to supply renewable energy to hundreds of stores, clubs and distribution facilities annually. That's enough renewable energy to power over 240,000 average American Homes for a year. That's on top of the four gigawatts of renewable energy currently supplied by our projects globally. This is one more example of the important work we're doing to become a regenerative company.

Now let's talk more about our results for the quarter. Walmart US had another strong quarter. The team delivered for our customers as they shop in our stores and online, and additional government stimulus payments created a tailwind. Our comp sales of 6% including 37% growth in e-commerce were strong, strength was broad-based across categories, including apparel, home, hardlines and seasonal. I've recently visited stores, clubs and supply chain facilities in New Jersey, Delaware, DC, Ohio, New Mexico, Texas, Illinois, California and Florida.

I continue to be grateful for the job our associates are doing and I'm impressed by their spirit. They are operating safely in a pandemic, improving our in-stock and standards, working hard to fulfill pickup and delivery orders and vaccinating millions. Doing all those

things at once isn't easy and we've had our challenges. But our associates continue to step up and they are strengthening our position as they do it.

In the US, our first-party retail business is strong but we're also making good progress in other important parts of our business. Marketplace GMV, fulfillment services and advertising income with Walmart Connect are all strong. The flywheel we showed you in February is being built. Each component is positioning us to serve the customer better while diversifying the model.

As we previously shared, the top of the flywheel starts with being the best first place people shop. Store remodels, investments in pickup and delivery capacity and sales of Walmart+ fall into this category of activities. We need more capacity to get ahead of demand, and we remain convinced these investments are smart ones. This is one of the keys to selling more Walmart+ memberships which is an important piece of our strategy over time.

In addition to work at the top of the flywheel, we'll continuously add brands, assortment and capabilities to our e-commerce general merchandise business with first-party inventory and marketplace expansion. We'll invest in our general merchandise business and grow in higher-margin categories. The announced acquisition of Zeekit is a great example. This startup combines fashion and technology through a dynamic virtual fitting room, and underscores the desire to grow our apparel business aggressively.

We continue our work to build a larger health and wellness business and help customers and associates have a better experience when it comes to their health care. Our acquisition of MeMD is a big step in that direction, adding a telehealth capability was important. Just as we're doing this core retail, we're building an omni-channel health and wellness business.

At Sam's Club, the momentum continues, our items are improving, membership and sales comps are strong and the team keeps adding and scaling capabilities like curbside. We're seeing strength in categories associated with social gatherings as well as an increase in business member activity. Categories like restaurant supplies are coming back. We saw a tremendous growth in membership income for the quarter and overall membership counts are at an all-time high. Like our store's business, government stimulus helped our results, but I'm confident the underlying business is strong and moving in the right direction for our members.

Our international team has been busy transitioning the portfolio to higher growth markets and it's working. As you will recall, we recently divested our businesses in the UK, Japan and Argentina, and as a result, net sales for the quarter declined about 11% year-on-year. On a like-for-like basis, when we remove the recently divested markets, net sales increased 5.1%. These are good results and demonstrate the segment's ability to deliver growth for the enterprise.

In India, for the first quarter, Flipkart and PhonePe continued to experience strong growth as annualized total payment value run rate that PhonePe grew by more than 150% versus

last year. At Flipkart monthly, active customers and users are key metrics and we're performing well. Our recent announcement of our intent to acquire Cleartrip, a leading online travel company underscores our commitment to transform the customer experience through digital commerce. Our growing base of customers means we need to continue to add new capabilities, including areas such as logistics and data storage. The recently announced partnership with Adani Group will help us do just that.

Walmart makes continues to be strong and the flywheel is coming to life. Our assets in this market uniquely position us to serve customers in new ways and they're responding. In Mexico, sales in e-commerce increased 166% and our same-day delivery service is now available from 680 locations. Similar to the US, we're expanding our business to include more than just traditional retail. A few areas of note include the advertising business which saw an increase of more than 100% in new advertisers and our new mobile phone services network that provides voice, data and home broadband, bringing access and value to our customers. We doubled the number of users of these services during the quarter as customers enjoy the convenience of adding data to their plan right at the checkout.

In China, our e-commerce business and Sam's Club continue to resonate with customers and members. Helped by a strong Chinese New Year, the club business delivered strong sales across all categories, leading to double-digit comp sales growth. We grew overall e-commerce sales 60% on top of impressive growth last year.

Results from our business in Canada were good, even as lockdown measures intensified as the quarter progressed. We started with strong sales in stores and e-commerce, but COVID-19 related restrictions on sales of certain merchandise categories towards the end of the quarter pressured our performance. The underlying business is strong and we're confident in our omni-channel model for this market.

I'll close today by thanking everyone for a strong quarter. It all starts with our associates and their focus on serving our customers and members. We're being aggressive in dialing up innovation and speed. We're moving fast to learn new skills and to sharpen our edge on existing ones, and we'll move even faster as we invest in key areas to accelerate growth into the future. Thank you for your interest in our Company.

Now, I will turn it over to Brett.

**Brett Biggs** {BIO 17414705 <GO>}

Thanks, Doug. We're pleased with strong first quarter results and the continued momentum in the business with both strong sales and profit growth. While stimulus spending benefited results, it's exciting to see the continued progress in our underlying business, as we execute on the fundamentals and progress with our omni strategy.

Newer businesses within our ecosystem like advertising and fulfillment services are growing rapidly, helping margins and allowing us to continue to invest in other strategic priorities. Our unique assets, value proposition of financial strength put us in a great

competitive position to win, keeping the customer at the center of all we do. As we expected, we're growing grocery market share again in the US compared to last year according to Nielsen. Value and assortment will continue to resonate with customers as does the convenience we provide with our omni shopping options.

Now, let's discuss Q1 results. As we've mentioned previously, the divestitures in the UK, Japan and Argentina significantly affect year-over-year comparisons. We outlined the anticipated effects of divestitures on key financial metrics when we provided guidance in February, so my comments today will focus on the underlying business excluding the effect of divestitures.

Total constant currency revenue growth was strong at 5.8% to more than \$132 billion, with underlying business trends continuing to improve, while stimulus spending benefited US sales, even versus last year's consumer stock up phase and initial stimulus.

Walmart US comp sales were stronger than expected, up 6% in the quarter and up 16% on a two-year stack. Sam's Club grew comp sales nearly 11% excluding fuel and tobacco, and international sales growth was strong, increasing more than 5% in constant currency, with strength in India, Canada and China. Globally, e-commerce sales growth remains robust at more than 40%.

Gross profit margin increased 96 basis points, led by Walmart US, reflecting mix shifts due in part to stimulus spending, lower markdowns and lapping last year's COVID-related stock up, which was more focused on food and consumables. As expected, SG&A expenses were pressured by increased wage and technology investments in the US, partially offset by lower COVID-related costs resulting in 21 basis points of deleverage. Overall, though, I feel good about expense focus across the Company.

Operating income on a constant currency basis was up over 28%, and adjusted EPS of \$1.69 was 43% higher than last year's Q1 adjusted EPS. The divested businesses contributed \$0.07 of EPS due to partial period ownership in the quarter. GAAP EPS was \$0.97, which includes net losses on our equity investments, as well as the incremental loss on international divestitures. Operating cash flow declined about \$4 billion due primarily to inventory increases versus last year when in stock levels were much lower due to stock-up shopping. We stepped up buybacks during the quarter with \$2.8 billion of share repurchase. We continue to feel great about the value of the Company.

Now let's discuss the quarterly results for each segment. Walmart US had another strong quarter aided by stimulus spending and underlying improvements in the grocery business, as well as strength in reopening categories such as travel, celebration and personal care. We're particularly encouraged by the improving trends in store transactions which turned solidly positive in April for the first time in a year. We also saw strong market share gains in grocery according to Nielsen, and continued strength in e-commerce.

Comp sales excluding fuel increased 6% resulting in a strong two-year stack comp of 16%. Sales strength was broad-based across channels with e-commerce sales growth of 37%.

The omni strategy continues to resonate as customers utilize all the shopping options we offer and we continue to expand pickup and delivery capacity from stores. Customer trip consolidation led to a nearly 10% increase in average basket size with 3% fewer transactions.

Strong sales trends were led by apparel, home, and lawn and garden. Grocery sales declined against uniquely tough comparison but comps were up low-double digits on a two-year stack basis, including mid-teens growth in food categories, helped by strong price positioning, improving in stocks and expanded store hours relative to last year.

We are pleased with the progress of strategic growth initiatives, such as Walmart Connect advertising, e-commerce marketplace and Walmart fulfillment services. Advertising revenue was robust with triple-digit growth for the quarter. Gross profit rate was strong at more than 140 basis points reflecting a favorable mix shift to higher-margin general merchandise categories and lower markdowns. Margins were also helped by lapping last year's COVID-related closures of Business Centers and Auto Care Centers.

SG&A expenses deleveraged 49 basis points as increased associate wage investments and increased technology spend were partially offset by an approximate \$400 million reduction in COVID-related costs versus last year. Operating income was very strong at nearly 27%. Inventory increased 16%, reflecting strong sales growth and lapping last year's COVID-related effects on inventory.

We continue to monitor industry challenges related to transit, import delays and our merchants have taken steps to mitigate the challenges, including adding extra lead time to orders. The fundamentals of the US business continue to improve and we're confident we have the strategy, structure and people in place to serve customers and reach our goals this year and beyond.

International delivered strong Q1 results with net sales growth of 5.1% in constant currency, including strength in India, Canada and China, despite many markets being negatively affected towards the end of the quarter by a resurgence of COVID. The benefit of strategic portfolio realignment to focus on higher-growth markets is becoming more evident in top line growth. E-commerce sales increased approximately 64% and penetration grew more than 570 basis points to about 16% of sales. Currency benefited sales by approximately \$0.7 billion.

Comp sales in Mexico declined slightly against a tough comparison but were up low-double digits on a two-year stack basis, as the omni-channel strategy continues to accelerate. The Mexico business has made good progress expanding alternative revenue and profit streams within the ecosystem, including doubling the number of digital advertisers and continue to see strong growth in mobile services.

Canada comps increased 3.4% with more than 115% growth in e-commerce sales, despite headwinds later in the quarter from COVID-related government restrictions on the sales of non-essential categories like apparel and general merchandise. China comps increased

1.3% and were up 13% on a two-year stack. Strong Chinese New Year sales continued strength at Sam's Clubs and e-commerce growth of 60%, all contributed to the result.

Flipkart continues to perform well, driving strong and sustainable e-commerce GMV growth and strong trends in monthly active customers and users, even as the teams deal with the challenges we're serving COVID cases in India.

International operating income was strong, up more than 21% as better sales mix and fewer markdowns in certain markets benefited margins in addition to a continued focus on expenses.

The momentum in Sam's Club continued in the first quarter, with comp sales growth of 10.6% excluding fuel and tobacco due in part to stimulus spending. On a two-year stack basis, comps were up nearly 27%. Comps benefited from both increased ticket and transactions. Strength was broad-based across categories with home and apparel leading the way. E-commerce sales were strong increasing 47% led by strength in a curbside pickup at the club. We're pleased with the continued strong membership trends as membership income grew about 13%. We achieved a new high for overall membership accounts during the quarter and saw higher renewal rates, including strong first-year renewals and rising plus penetration. Operating income increased more than 16% in Q1, but including the negative impact of fuel, profit increased 33%.

Now, let's turn to guidance. Our typical practice is to not update guidance until the second quarter release. But we're in an unusual period where Q1 stimulus led to meaningful sales and profit tailwinds that weren't contemplated when we provided guidance in February. The guidance discussed here assumes that COVID conditions continue to improve and there won't be significant additional government stimulus packages for the remainder of the year. We now anticipate higher full-year enterprise sales growth than originally projected primarily due to the strong Q1 performance in our initial forecast for Q2. Excluding the impact of divestitures, consolidated net sales growth is now expected to be up low-to-mid-single digits versus our original guidance of low-single-digit increase.

We're also raising full-year guidance for operating income and EPS to reflect the strong performance in Q1, and our expectation for a potentially better second quarter than previously expected. On a constant currency basis and excluding the impact of divestitures, we now expect full-year consolidated operating income to increase by high-single digits for the year, and EPS to increase by low-double digits, which is an increase from our prior guidance of both being flat to up slightly. Walmart US operating income is now expected to increase high-single digits versus our original guidance of a slight increase.

The second quarter start off a bit better than originally anticipated as stimulus spending continues to benefit certain general merchandise categories, and we expect grocery market share gains to continue. We now anticipate Q2 EPS excluding divestitures will be up low-single digits and assumes a low-single-digit Walmart US comp sales increase excluding fuel.

FINAL

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The COVID pandemic continues to create both tailwinds and headwinds for our business. While Q1 was aided by stimulus spending primarily in the US, certain international markets continued to be negatively affected by the resurgence in COVID cases and related government restrictions on operations, particularly in India and Canada. Given continued uncertainty, we are maintaining our original guidance for the back half of the year and we'll update you as we gain clarity on key external variables related to the health crisis and their potential impact on our business and the global economy.

Again, I'm very pleased with the first quarter results and feel good about the underlying strength of the business. Thank you for your time and interest this morning. And we'll 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) Thank you. And your first question is from the line of Karen Short with Barclays. Please proceed with your question.

### Q - Karen Short {BIO 20587902 <GO>}

Hi. Thanks very much. I wanted to focus on grocery because you've obviously mentioned that a couple of times in this conference call and the presentation. But I guess what I'm wondering is, what is your approach to pricing, given the price gaps that we're seeing with conventional and that combined with the fact that we are seeing unprecedented cost inflation? And I guess maybe asking it a little differently. With respect to your broader goals for 2021, how important is recapturing share in grocery?

### A - John Furner {BIO 19351533 <GO>}

Hey, good morning. This is John Furner. Thanks for the question. First, let me, just start by saying a big thank you to our associates and our team around the country who helped us deliver the quarter and on the heels of such an interesting year last year, they've done a great job improving conditions, both in-store and online, and we're really proud of the performance in food. Glad to start with that question.

And over the quarter, we've seen a lot of progress in food with our inventory, considering we started the quarter with a very large ice storm that affected supply chains and then as we noted, late in the quarter, performance that resulted in market share gains in food, there is a view of this that we showed back in February which is our flywheel, and on the top of the flywheel is our food and consumable business and our supercenter business, which is really important to the customer journey.

And over the last 12 months, specifically in your question on price, over the last 12 months, we saw our price gaps improved versus the market and our merchants are working hard to ensure that that will continue and these market share gains that we saw in the latter part of the quarter are very encouraging and it's great to see that we're positioned well when

customers need to shift. When customers shifted last year to shopping online, we're able to perform at that time and then we've seen some shift back in the store in the quarter and the performance that's represented in the first quarter is a reflection of that.

So we feel good about the price gaps. These are the things that you always work on considering how many levers merchants have and everything going on in the market. So we feel good about our position in the market and we'll continue to focus on share gains for the rest of the year.

**Q - Karen Short** {BIO 20587902 <GO>}

Thanks.

## Operator

The 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 strong results. And just wanted to dig a little bit more on your updated guidance for the year. Maybe if you can give a little bit of color as it relates to the improvement in your 2Q expectations, and then just provide a little bit more context on how you're thinking about first half versus second half of the year?

**A - Brett Biggs** {BIO 17414705 <GO>}

Hey, Paul, this is Brett. Good to hear from you. Yeah. I mean we -- as we got through the first quarter and we started understanding how strong the underlying business is, as John said, it started out a little challenging with the weather we had in February. So we saw the business strengthening as we went through the quarter and certainly, some of that is going to be a stimulus as we readily admit that. But you're seeing customers get back out again. It feels like things are opening back up, particularly in certain parts of the country.

So we felt like it was the right time to go ahead and update guidance different than we typically do, given the strong performance. And then what we've seen in the early parts of the second quarter, we felt that we should go ahead and update guidance as we did. We haven't said anything really about the back half. We -- as I said in my comments, still a lot of uncertainties that are out there, we have headwinds and tailwinds and they'll play themselves out over the next several months. But I think all of us feel more confident than we did in February, and felt like updating guidance was the right thing to do at this point.

**A - Doug McMillon** {BIO 3063017 <GO>}

Paul, this is Doug. I would just add that when we imagine back-to-school, Halloween, Thanksgiving, Christmas, and what families are going to want to do, we get really excited about the potential of that and they're buying in a consistent way with how we are imagining it.

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**Q - Paul Trussell** {BIO 20732173 <GO>}

Thank you. And just a really quick follow-up just on the margins, just digging a little bit more in 1Q. Brett, could you talk a little bit more about what was the impact of the strategic wage and technology investments that you made?

**A - Brett Biggs** {BIO 17414705 <GO>}

Yeah. I mean I'll talk -- I'll start with gross margins. I mean, gross margins, obviously were up significantly in the US, about 140 basis points, did really strong general merchandise sales this year which we're comparing that against the quarter last year that was very heavily influenced by food and consumables, so you get that dynamic on gross margin.

Certainly, the wage investments had an impact. I won't get into the specifics of that. It did cause us -- primarily caused us deleverage in the first quarter. But we knew that was coming. We're glad we did that and certainly ahead of the environment you're seeing right now, wage increases, tech investment increases as well, but it's offset by some other things from -- that we're leveraging across the Company.

Paul, I still feel good about the overall expense discipline and focus that I see across the Company. And as we said, when we get through this year, with the increased wage investments going forward, I still feel good about our ability to leverage long-term.

**Q - Paul Trussell** {BIO 20732173 <GO>}

Thank you. Best of luck.

**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>}

Good morning, everyone. So I have maybe a two-part question, but I'll make it one question. First, you referred Doug and Brett in the transcript, a lot of mentions of alternative profit streams or profit pools. Can you talk about your visibility around the business? And if these pools are giving you more confidence in sort of how you're managing the business, it gives you more I guess wherewithal to invest back into it?

And then the second part of the question is, Doug, you mentioned the flywheel and you're investing in capacity ahead of growth. Any update on when there could be an inflection? Or is it rolling or does it start at some point in the next fiscal year, where you had a good place and maybe push a little bit harder on Walmart+? Thank you.

**A - Doug McMillon** {BIO 3063017 <GO>}

Yeah. Simeon, this is Doug. I'll go first. As it relates to alternative profit pools, John can chime in here as well, but I'm excited about the marketplace. I'm excited about what's happening with fulfillment services. Walmart Connect performance was good. We do

have strong visibility into that, and you're starting to see it happen in Mexico too. And as we've said to you before, this strategy makes sense for us everywhere in our key market. So the P&L starting to change its shape as we described in February even more than a year ago and that does give us some room.

#### **A - John Furner** {BIO 19351533 <GO>}

Good morning, Simeon. This is John. I'll just add on and say that we are excited about the three areas we mentioned marketplace, the WFS, fulfillment services and connect like we said earlier, and really optimistic about the results with Walmart Connect with triple-digit growth. That platform is something that we've been working on for a while and as we talk to you a few months ago, it helps connect buyers, sellers and suppliers in a way that's unique to Walmart and optimistic about what we see there.

On fulfillment services, it's great to see the team expanding capacity. We know we have seller demand. My team and I have spent a number of hours listening to sellers, talking to sellers and figuring out all the tools that we need to add, so this is important for their businesses as well. And then as we said in the quarter, we had 37% growth in e-commerce. On top of a big number last year, we've basically doubled the business last couple of years. So excited about all three of those and they are clearly businesses that will help us with our flywheel going forward.

#### **A - Brett Biggs** {BIO 17414705 <GO>}

As it relates to capacity getting ahead of growth, it's starting to happen. The plan that we had for the year is being executed. And as you're in stores, you can see the stress that some of our stores are under in terms of the volume going through for pickup and delivery orders, and in some stores, we're expanding space, capital is going towards that. In some stores, we'll be putting in automation to really press the top end of this thing where we know we're going to have that kind of demand, and the team is executing against that and we continue seeming to be excited about it. And we'll go as fast as we can go this year and do it well, and I think we'll learn a lot from it and we're very confident that that capacity is going to be needed.

#### **Q - Simeon Gutman** {BIO 7528320 <GO>}

Thanks. Best of luck.

#### **Operator**

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

#### **Q - Bob Drbul** {BIO 3131258 <GO>}

Hey, good morning. Just a couple of questions. I mean, largely around gross margin and pricing and inflation, just wondered if you can talk a little bit about what you're seeing on the inflationary side, different categories? And so you did mention balancing between customers and shareholders. Just sort of how you're approaching that? And sort of tying it together, when you look at the consumer focus more on value versus convenience, just

wondered if you could maybe give us a few examples on where you think you're making progress around that value offering in this environment? Thanks.

**A - John Furner** {BIO 19351533 <GO>}

Yeah. Thanks for the question. This is John again. First, as we said, we're really pleased with the performance in food, and the team has just done a great job getting the entire supply chain back in stock, including stores. We've got changes in the stores where we're shifting more of our stocking overnight, so we can free up more capacity during the day for things like picking as Doug said and do that in a way that's conducive to customer shopping. So excited to make those changes.

As far as price gaps, we've always had a principle here that everyday low price is important. In the quarter, we added about 30% more rollbacks in stores than what we would have had a year ago. Some other things that are important are the mix -- not only mix the entire box, but the mix within food. I'm pleased with the share gains that happened in meat and produce and bakery.

So even within the food categories, the mix has been favorable to categories that tend to have better margins, which is enabling us to maintain price positions that we've been running. And our gap expanded last year versus the market. We are pleased with the gap. We're proud of the gap, and we will continue to use all the levers we can to maintain those kinds of price gaps. And the merchants of Walmart this year even more prepared than years in the past to be able to manage that because of the channels they mix. Our merchants across the business can manage the channels from stores to e-commerce first-party, e-commerce, third-party. And then finally with the additional revenue and profit streams we mentioned with Walmart Connect, marketplace and fulfillment services, that will just help us going forward mix to make sure that we have the right gap for customers.

I do agree with you that value is -- could be more important from -- than convenience last year, but value has been an important pillar of ours for a very long time.

**A - Doug McMillon** {BIO 3063017 <GO>}

This mentality that John described related to rollbacks is important to underline that it applies in international, it implies in Sam's Club as well. And Bob, I'm reminded of a conversation in the early '90s. As an assistant buyer in food, my supervisor walked into the room with a few of us and said, we're short on our profit number for the month and need you all to find price reductions that you can put in place quickly, bring them to me by the end of the day. And I thought I misheard him, how do you lower prices and increase profit? And that's the beauty of retail and a mix. And these supercenters and now with e-commerce and marketplace and fulfillment services, Walmart Connect, we've got all these levers to be able to find places to go upstream, do things differently than other people are doing it. So to have 30% more rollbacks in place right now in Walmart US, for example, positions us really well.

**Q - Bob Drbul** {BIO 3131258 <GO>}

Thank you.

## Operator

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

**Q - Kate McShane** {BIO 7542899 <GO>}

Hi. Thank you. Thanks for taking our question. I know that in-stocks was an area that you mentioned during 2020, that was hard to manage given the strong demand. Just wondered, currently, are there any areas within your inventory of categories that are light or you're still working to build back?

**A - Doug McMillon** {BIO 3063017 <GO>}

Hey, good morning. Thanks for the question. Certainly, 2020 was a challenge when it comes to inventory flow with all the phase we went through from the stock up phase to people moving into their home and then demand and supply chain challenges all across that were related to the pandemic. Early in the quarter, I felt like we were making pretty good progress, and then we had this ice storm where we had just a record number of locations closed for a few days which put some stress on the supply chain. And then as we got later into the quarter and certainly we see improvements in our food and consumable business compared to what they would have been a year ago.

In general, general merchandise has been a bit mixed. It's better in many cases, but there are some pockets where we continue to chase demand, things like adult bicycles, some of our categories in consumer electronics. And we're monitoring things like delays at the ports and other factors in the supply chain, and we'll watch all those things closely just to continue to react, but definitely, some pockets in general merchandise that we're still chasing given as we speak today.

**Q - Kate McShane** {BIO 7542899 <GO>}

Thank you.

## Operator

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

**Q - Peter Benedict** {BIO 3350921 <GO>}

Hi. Good morning, guys. Just a question on US e-commerce, maybe for John. Just -- obviously, the pickup activity continues to scale, but just curious on the home delivery front may be what you're pushing on there, just any updates? And also your micro-market fulfillment center tests, just curious kind of how you're approaching that? And just your thoughts on the home delivery side of fulfillment of e-commerce? Thanks.

**A - John Furner** {BIO 19351533 <GO>}

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Sure. Sure, Peter. Thanks for the question. In general, we have been working on capacity improvements and capacity growth when it comes online pickup and delivery from stores, and that's something that we have been tackling for some time now, and accelerated last year and we manage things what we call things like slot utilization or available slots, and we have more slots available for picking, for schedule orders than we've ever had.

We also have more capacity to ship from store, which leads to, I think the second part of your question, which is the in-home or the delivery at home. And I'll say a couple of things therein. And number one, we are expanding our -- what we call our Walmart in-home services which we just picked up another market and that's a redeliver food and other items from stores all the way into the home including in the refrigerator. We have our market fulfillment centers that you asked about. We have several that are in construction. We expect to be launching those either late Q2 early Q3. So we'll be able to talk about that more once those launched.

And then finally, we are excited about our last-mile business. We've been operating our first delivery vans that are Walmart branded in a market here in Arkansas, and we're learning a lot as we go forward. But we see lots of opportunities to serve customers, whether it's in-store, it's at their home or intent to curb and they want to do pickup, and we want to be extremely flexible and be able to serve customers anywhere they want. And last year, there was such a shift of people that were wanting to have deliveries shifted at their home from shopping in-store. I think what we'll see more this year is a balance between the at-home deliveries, shopping in-store and pick up as people get back out. But as Brett alluded to earlier, that's assuming that conditions of the pandemic continue to improve and we'll be ready should any change in the direction.

## Operator

Our next question is coming from the line of Michael Lasser with UBS. Please proceed with your question.

### Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. Can you quantify to the comments that you made in the script? One was from Brett. He noted that that the guidance increase was mostly due to stimulus-related spending. So how do you parse out the 1Q results and what you're expecting in 2Q the impacts from the stimulus? And you -- [ph] Doug noted that Walmart+ is an important driver over time, so can you give us a sense for where that program stands today, and how it should unfold from here? Thank you so much.

### A - Brett Biggs {BIO 17414705 <GO>}

Hey, Michael, this is Brett. Good to hear from you. Yeah, I mean, a couple of things I mentioned various ways in the script is the underlying business feels good and we're more optimistic about that part of it. Certainly, stimulus benefited our results in the first quarter, but you can also get a sense of how we increase the second quarter. You know what the original guidance was and what -- how we increased the guidance for that quarter. So that should give you a little bit of sense of how we're thinking about stimulus versus the underlying business.

I can tell you though it is challenging to pick out exactly the impact of stimulus because of the types of categories that you see benefited by stimulus, or also categories you see benefited by the economy opening up, particularly in the general merchandise side, so it makes it a little more challenging to pick through that.

#### **A - Doug McMillon** {BIO 3063017 <GO>}

Michael, on membership, you know, and inside Walmart, this is a new program for us. The number one driver of selling memberships is the grocery supercenter pickup and delivery, and as we said before, capacity is our issue there. And as we said in February, our focus is on the quality of that experience, not the quantity. We want some time to work on NPS. We want to build capacity. We are marketing the program and long-term, it will be important to us. But we've gotten so many other things going on with stores improving in traffic and e-commerce growing and marketplace and all that kind of stuff, we just -- we don't think that Walmart+ should be the primary focus at the moment for us with all these other opportunities.

So we'll keep growing it. At some point, I'm sure we'll share some more information with you guys about it. I know there is a request for that because of streaming services and how much people are talking about subscriptions and memberships these days. So that's -- John, I don't know if you want to add anything, but that's how I feel about it right now.

#### **A - John Furner** {BIO 19351533 <GO>}

Yeah. I completely agree. And the big thing that we're doing is creating capacity to be able to serve more and we've begun work on market fulfillment centers where we can use locations as hubs for other stores and spokes. And we've got a lot of really encouraging supply chain work going on that would help us use the right algorithms to be able to pull inventory from all across the network and be able to serve people.

So the encouraging just in the last few months to see that not only the capacity has gone up, but e-commerce results has been strong, delivery from stores has been strong, delivery from fulfillment centers has been strong. So these capabilities are putting in place will be a great foundation for this program just moving forward.

#### **A - Doug McMillon** {BIO 3063017 <GO>}

Having a digital relationship with customers is important, and that takes various forms. We've seen with the app downloads, for example, and app popularity and what happened last year, in particular, with pickup and delivery, a really large expansion in the number of digital relationships, which helps us with data, helps to be a retailer in the future. Overall, we feel good about what's happening in those areas.

#### **A - Brett Biggs** {BIO 17414705 <GO>}

Yeah. And those relationships, I believe will continue to grow because of things like the improvements in technology, we're working on improving the app and its core experience, some acquisitions like Zeekit and MeMD are also other ways that customers will be able to connect with Walmart effectively, and we'll be able to help them with more and more of their life and take friction off, make things simple for them.



**Q - Michael Lasser** {BIO 7266130 <GO>}

Very helpful commentary. Thank you so much.

## 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. We had a question on general merchandise improvements. You've talked a lot about food, but I'd like to give you some time to talk about general merchandise. You've brought in new talent there. You've made some strategic tuck-in acquisitions and some strategic partnerships as well. So help us think about what we should be looking for in terms of progress on general merchandise? And maybe if you could tie that back to some of your initiatives around marketplace as well, what you're learning from your digital growth that might be driving some of your in-store decisions around general merchandise? Thank you.

**A - John Furner** {BIO 19351533 <GO>}

Sure. Let me take that. This is John again. We're really excited about the performance in general merchandise in the quarter. As you mentioned, we did make a number of changes with talent over the last year, and probably the biggest change was last July when we pulled all of the channels together and traditionally we had teams of people we called category specialists that were online and then we had buyers that were in store and we're referring to the mall as merchants because the merchants now have the customer relationship across all channels and the team has spent a lot of time thinking through and working on the right programs to determine what in our assortment goes in-store, what's 1P and then was 3P.

And I'll give you an example. Just last week, I was in Minneapolis, visiting one of our suppliers Nordic Ware, who makes cootwear here in the United States. And we went through the number of items that they have in stores, what's doing well, what's going to improve, and then their entire catalog is available in the marketplace. And so our merchants are able to manage that assortment across channels and that gives them more levers to be able to serve the customer in a way that's frictionless and very clear.

But in the quarter, we definitely saw some changes with the way customers shop partly due to stimulus but also just behavior changes. Brett talked about it earlier, categories like personal care, improving travel is starting to really kick back in. And when you look at all the categories that are selling at Walmart, you can tell a lot about what's going with customers across the country. So we definitely saw behaviors that are starting to reflect more opening up and getting back out and going to see people, and our health and wellness business has been extremely helpful in administering millions of vaccines in the quarter. And there were some of the changes, even in the last week, and we expect some of these changes with the customer could continue but we'll continue to watch that as the year moves on.

## Operator

Thank you. Our next question is from the line of Edward Yruma with KeyBanc. Please proceed with your question.

### Q - Edward Yruma {BIO 4940857 <GO>}

Hey, thanks for taking the question. Obviously, some very positive commentary on store traffic. I know you noticed -- you noted that April saw an inflection. When you see that store traffic begin to really improve, are you seeing any other changes within the e-comm business, either pickup or delivery? And then as a follow-up, as that traffic improves, are you seeing any favorable mix shift? Thank you.

### A - Brett Biggs {BIO 17414705 <GO>}

For the traffic in-store, the counter traffic as we said, definitely change in April and probably late March a bit, that's when we started to cycle some of the really big stock-up trips. And what was happening last year were fewer trips and big consolidation, it did put a lot of strain and stress on inventory and things like paper goods and food and consumables. So this we'd not -- as that shift begin to occur and we saw this year numbers begun to reflect gains in food categories, I think it was a combination of people getting back out comparisons to last year, but also some normalization in terms of the frequency of food that's purchased. And specifically within channels, a strong growth between all three. As we said in the US, the total comp was 6%, including e-commerce growth of 37%, and then the e-commerce growth is a mix of what's being shipped to people's homes from fulfillment centers or stores and inclusive the pickup.

Finally, I'd just say that we continue to expand capacity in all channels. We're excited about the expansion of slots available for shopping in stores. We're excited about the amount of capacity we have in stores to ship to people's home. And then we're continuing to work and invest in the supply chain to have more capacity going forward for pure first-party e-commerce.

## Operator

Thank you. Our next question is from the line of Michael Baker with D.A. Davidson. Please proceed with your question.

### Q - Michael Baker {BIO 4323774 <GO>}

Thanks, guys. Just two follow-ups, if I could. One, the 100 basis point or so gross margin improvement, can you sort of parse that out and how much is coming just from the mix from general merchandise, and how much is being supported by the strength in the alternative businesses, and if not an exact quantification may be directionally?

And then the second question, just to follow up on the comp guidance. So first quarter was better than expected, second quarter guidance is up, yet the full-year comp, if I'm understanding you correctly, didn't change. So should we read into something, is that a decline in the back half, or just really [ph] to change it? Or low-single digits is a pretty

wide range I suppose, it could be anywhere between 1 and 3 or 4, [ph] so what do we read into that not changing the full-year guidance? Thank you.

**A - Brett Biggs** {BIO 17414705 <GO>}

Hey, this is Brett. Appreciate the question. Yeah, I think on the -- I'll start with the second one on comp guidance. What you said about low-single digits being a fairly wide range, that is the case. It is a wide range and it's -- when you look at the big numbers of Walmart US, it ends up in a really wide range. So I wouldn't read anything into that. We feel great about the first quarter and the second quarter started out pretty well as we've said.

On gross margin, I'll say -- start and John come in. The biggest change of course, was the general merchandise sales strength that we're seeing this year versus the food and consumable strength that we saw last year in the first quarter. And also when you start seeing strength in general merchandise, which we've had really over the last several quarters, you see fewer markdowns, there's a lot of add-on benefits that come from that for gross margin.

**A - John Furner** {BIO 19351533 <GO>}

Yeah. Let me just add a bit on to the margin question. Certainly, the restraint in general merchandise in the quarter and we talked about the strength in food and food was more balanced this year than what we would have seen last year. Last year, we were really heavy in dry grocery and stock up items as the pandemic began. So the strength and share gains that we saw in the first quarter in food, in more specifically meat, produce, bakery and grocery, but leading in the fresh area is certainly helpful.

The third point I think I'd make is inventory positioning at the end of the quarter. Our inventory level was up, which is a good thing. Last year, we had big stock-outs in grocery and in general merchandise so that's much better about our inventory position. As Brett mentioned, our inventory is clean and we've been really disciplined about ensuring that we're clearing up into season and seasonals. We feel great there.

And then the last thing I would say is, the drivers of e-commerce contributed profit rates have been strong. Having merchants in the position of having all channels and their remit given a category and what the customer wants is helping with the drivers of e-commerce which would include things like contributed profit rates, Walmart Connect, et cetera.

**Q - Michael Baker** {BIO 4323774 <GO>}

Great. Thank you. I appreciate that color.

**Operator**

Thank you. Our next question is from the line of Kelly Bania with BMO Capital. Please proceed with your question.

**Q - Kelly Bania** {BIO 16685675 <GO>}

Hi. Good morning. Thanks for taking our questions. Also, I wanted to touch a little bit on general merchandise. So with -- in the US so with low 20% growth, just curious if you think you gained market share there. We were thinking maybe 26% market growth, which is kind of a rough estimate. But just curious how you're thinking about that? How you measure that? And also how your efforts with Walmart Fulfillment Services and third-party are may be contributing to your general merchandise growth?

**A - John Furner {BIO 19351533 <GO>}**

This is John. Let me take your first question first. The share performance in general merchandise we think is about flat to last year, and we manage it in a month and arrears. Our data is for February and March, so we feel good about the performance through onto the first two-thirds of the quarter, and certainly, saw as you said, strength across general merchandise in the 20% range.

So I think we're positioned well, feel good about where the share is versus a year ago, particularly excited about performances in categories like home and apparel in the quarter, and the positioning we have going into the second quarter. And certainly, some tightness in the supply chain as we mentioned earlier in select categories that where we've had high demand and stresses in the supply chain. But we're watching that carefully and feel good about the improvements and in-stock all across the business, including the fulfillment centers and stores. But again, I think we're most encouraged by the demand and seen things like travel and other things open up and being able to be ready for customers is important as we move forward.

And then the second part of your question on fulfillment services. We've done a number of capacity improvements that are coming online this year, so we're excited about the impact those will have not only on the top line and for the customer, but also for our sellers. And more sellers are looking for more services and ability to ship and that's -- it's a great way to enable small businesses for growth. So as the year goes on, we'll see more and more capacity come online for fulfillment service business.

**Operator**

Our next question is from the line of Scot Ciccarelli with RBC Capital Markets. Please proceed with your question.

**Q - Scot Ciccarelli {BIO 1495823 <GO>}**

Good morning, guys. My question is on the US EBIT increase that you saw. I'm wondering how much of that increase was attributable to what I would assume is a structurally more profitable e-commerce operation given that the growth and scale you're able to garner last year? And related to that, any updated color regarding the profitability run rate of the e-commerce today?

**A - John Furner {BIO 19351533 <GO>}**

Hi. Good morning Scot. This is John. Specifically in your question on e-comm, and we feel good about the drivers of the e-comm profitability, which is contributed profit rates and

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that would be gross margins less the cost of shipping. We also feel good about the alternative revenue streams that are included in e-commerce which are things like the marketplace, fulfillment services, like I said earlier, we're expanding capacity. We know we have seller demand. And we're really proud of the triple-digit growth in Walmart Connect. So all of those added together are helpful in e-commerce P&L.

On the breakout, we actually are not breaking out the difference in stores at e-com because that has just become so blurred as we transition to an omni business. We have our merchants that are overseeing all channels by category. Stores are acting as stores, they act as pickup centers and in some cases, fulfillment centers. We have fulfillment centers acting as fulfillment centers, which go direct to home. Any time they ship to a store, so they got -- the inventory can be consolidated with an order and then put into our last-mile network.

So it's just not possible for us to break those out given how blurred the lines have become. But overall, I'd say the teams are doing -- they're just doing a great job with the contributed profit at rates and the mix within -- not only the mix within the business like general merchandise versus other things, but within categories, they're doing a great job improving contributed profit rates. [ph]

**Q - Scot Ciccarelli** {BIO 1495823 <GO>}

Very helpful. Thanks, guys.

## 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, good morning. And a great quarter here. More of a macro question for me. When you look at the data and see how the consumers allocated the most recent stimulus checks, I'm curious how they compare and contrast to what you saw in April and in late December this past year? Are we still spending the same amount, or we're seeing more allocated to savings, and therefore this pent-up demand that could get spent in the coming months?

**A - Brett Biggs** {BIO 17414705 <GO>}

Hey, Chuck, this is Brett. Yeah, I think we're seeing a little bit of both. I mean you're seeing customers definitely get out and spend again. Spending rates are good. Income rates are good but savings rates are actually still almost at an all-time high, which would lead you to believe there is going to be some pent-up demand as we get to the back half of the year.

So in a lot of ways, the consumer balance sheet unless you're in certain industries that were really impacted by COVID, the consumer balance sheet about as strong as it's been. Now a lot of that's due to the stimulus money that's gone into the economy that way, but in either case, it would indicate there is some demand coming.

## Operator

Our next question comes from the line of Robby Ohmes with Bank of America. Please proceed with your question.

### Q - Robby Ohmes

Hey, good morning, guys. Doug, you mentioned the omni-channel health and wellness business. Can you remind us what that could ultimately look like? And maybe even I -- what the current like pharmacy recovery, how that's playing out? I know you guys have been involved with vaccines and everything. Anything going on that's going to accelerate the omni-channel health care dream for you guys?

### A - Doug McMillon {BIO 3063017 <GO>}

Yeah. Robby, I'll jump in first, and then John can add. I think the pharmacy business has performed really well considering everything our pharmacists have been doing. It's been an incredible challenge to do everything that they've done since the pandemic started, including all of these vaccinations that they're doing. We did have to shut down our Vision Centers for a while, optical though is back open and that's helped a lot.

The ultimate destination does look like an omni-channel destination where we leverage those historical businesses together with new health care services and the digital front end that John mentioned earlier and I mentioned in my remarks with MeMD. You can imagine a future where we'll be able to reach customers on their devices, in their homes to help them think about their health care in terms of what they eat, how much they move and then what types of health care services they need and where they get them.

And so I think you can see us building together those capabilities that would help people have access to care more of an outcomes-based health care system, great value, accessibility and serve a lot of people that need to be served, and also want to put a really good business that fits together well with a large food retailer. And so we've just been working through that strategy, executing the pieces, and if you look back at the CareZone acquisition, this latest acquisition of MeMD, you can see us adding some capabilities in addition to those that we're building on our own.

### A - John Furner {BIO 19351533 <GO>}

Hey, Doug, I'll just add -- go ahead.

### Q - Robby Ohmes

And Doug, just -- I was just going to ask you. Is this something that longer-term fits in with Walmart+ as well?

### A - Doug McMillon {BIO 3063017 <GO>}

We'll get back to you on that Robby.

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**A - John Furner** {BIO 19351533 <GO>}

Robby, this is John. I just want to reiterate our excitement for the idea of an omni-channel health care solution for customers and Walmart together. Our pharmacists and our pharmacies have performed very well in the last year, given all the challenges they faced. They've opened up curbside delivery, delivery to home. We've got central fill pharmacy is [ph] now helping assist with cost and efficiency. And the service suite that they offer is, of course, different by state, but the way our teams jumped in and found ways to help get the country vaccinated has been nothing short of amazing. I was in a store here locally last night and just seeing a number of people to be able to walk up and get their vaccine was very encouraging.

And then as Doug said, the market changed last year, we've had opened a number of clinics and we continue to open clinics. We're excited about the prospects that clinics bring, and then a large part of health care shifted to digital last year and the entire industry in a great sense. So this acquisition of MeMD to enable relationships with customers on their device, in their home, and be able to execute service care with our pharmacies and clinics on the backside of that is a really exciting prospect and it's a big part of our flywheel going forward.

**Operator**

Thank you. At this time, we have reached the end of our question-and-answer session. And I will turn the floor back to Doug for closing remarks.

**A - Doug McMillon** {BIO 3063017 <GO>}

Just want to close by saying thank you to all of you for following the Company so closely. Hopefully, you can see that in addition to the US tailwind that we've got strength building in the Company as I mentioned, I was in a lot of stores during this last quarter and standards are improving, in-stocks improving against the challenges that obviously the pandemic brought, but we've also got great momentum and strength in Sam's Club. International had a really good quarter, one of the best quarters, Brett, we've had in a while in International. And the portfolio work that Judith and the team have been doing there is working.

And the situation with the virus in India is tragic and we'll support not only our own folks, but the country as much as we can to try and get through that. And I'm sure there'll be other hotspot cities and countries that we'll deal with in the coming weeks because this pandemic is not over. But pandemic aside, economic stimulus aside, our focus is on the input metrics, the underlying fundamentals, the capabilities that we're adding and we see ourselves making real progress against those that the Company has changed a lot and there is more change coming, and I'm grateful to the team and excited about the future. Thank you all.

**Operator**

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

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