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Walmart, Inc. (WMT)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Walmart's Fiscal Year 2024 Second Quarter Earnings Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

At this time, I'll now turn the conference over to Steph Wissink, Senior Vice President, Investor Relations. Steph, you may now begin.

Stephanie Schiller Wissink

Senior Vice President & Head-Investor Relations, Walmart, Inc.

Thank you, and welcome everyone. We're excited to discuss with you the results of a strong second quarter and our upwardly revised outlook for the year. Joining me are Walmart's CEO, Doug McMillon; and CFO, John David Rainey. Following prepared remarks from Doug and John David, we'll take your questions. At that time, we will be joined by our segment CEOs John Furner from Walmart US; Judith McKenna from Walmart International; and Kath McLay from Sam's Club.

In order to address as many questions as we can in the time allotted for this call, please limit yourself to one question. The operator will mute your line after your question has been posed and once management has responded, we will move to the next person in line.

Today's call is being recorded and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC.

Please review our press release and accompanying slide presentation for our 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.

Thank you for your interest in Walmart. Doug, we are now ready to begin.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Good morning everyone, and thanks for joining us. We had another strong quarter. We're gaining share across markets and formats, growing units sold, transaction counts are positive across markets, and growth in operating income is outpacing sales. We're really pleased with our first half performance.

For the quarter, comp sales for Walmart US were ahead of where we thought they'd be at 6.4%. Sam's Club US was 5.5% and sales for International were up 11%, led by double-digit growth at Walmex and China. Flipkart's GMV was also strong.

The team is driving results in the short term and building for the future. We're a people-led, tech-powered omnichannel retailer dedicated to helping people save money and live better. We like who we are, and we like who we're becoming. We're positioned for growth. We can serve people how they want to be served, whether that's in a store or club, picking up an order curbside or having it delivered.

We continue to grow some of our newer businesses, which shape the overall model in a positive way, helping to enable us to grow profit faster than sales. We're setting the right capital priorities and you can expect us to continue investing in the areas we've talked about like technology, including automation, store and club remodels, and with new stores and clubs in select markets.

As it relates to technology, our approach to new tools like generative AI is to focus on making shopping easier and more convenient for our customers and members and helping our associates enjoy more satisfying and productive work. Ultimately, the power of generative AI or any technology is only as good as the data that powers it.

Our data assets are unique and we're excited about the potential to leverage them in new and impactful ways. We're taking large language models developed by our partners and by the broader tech community and adding retail context to create models that are uniquely suited to the needs of our customers, our associates, and our supply chain. We'll unlock value for shareholders through the combination of our physical automation work with our data and increasingly intelligent software.

We have a sharp focus on ROI as we drive results and set our capital priorities. The financial framework we laid out at our Investment Community Meeting in April is evident in our results from the last two quarters. The remodel program I mentioned includes items to support our goal of becoming a regenerative company, as we put things like new refrigeration equipment and EV charging stations in place. I was in Chile last week where I got to participate in the grand opening of a new hydrogen plant in Santiago that supports our strong business in that country.

While I'm on the subject of regeneration, we recently announced a new collaboration focused on supporting US and Canadian farmers to help improve soil health and water quality. Our collective goal is to enable and accelerate the adoption of regenerative agriculture practices on more than 2 million acres of farmland and deliver 4 million metric tons of greenhouse gas emission reductions and removals by 2030.

Some days I still get amazed by all the good work happening across our company. As a global retailer, we see how our customers and members are affected by what's happening at a macro level and how that influences their behaviors. Jobs, wages, and pockets of disinflation are helping our customers, but rising energy prices, resuming student loan payments, higher borrowing costs, and tightening lending standards and a drawdown in excess savings mean that household budgets are still under pressure.

I was in Calgary visiting stores a couple of weeks ago and our Canadian customers are feeling the pinch of higher interest rates faster than in the US given their shorter-term mortgages. When you put all this together, we see families that are discerning about what they're spending on. They're setting priorities and spending on the things they care most about. We saw that during the first half of the year with Chinese New Year and Easter and more recently with July 4 and the start of back-to-school where sales are ahead of plan so far.

We see them buying more private brand items and they're buying more grocery staples and in-home meal options consistent with eating at home. Our customers and members are resilient. They're looking for value and they trust us to be there for them. We see people across income cohorts come to us more frequently looking to save money on everyday needs. That gives us an opportunity to drive conversion in more discretionary categories.

We're encouraged by how general merchandise performed during the second quarter versus our expectations. We still expect food, consumables, and health & wellness primarily due to the popularity of some GLP-1 drugs to

grow as a percent of total in the back half, but the trends we see in general merchandise sales make us feel more optimistic about those categories in the back half of the year.

Our stores and clubs give us a competitive advantage and power our omnichannel model. Our curbside pickup business continues to grow, as people look for ways to save time and store-fulfilled delivery is now growing faster than pickup across all three segments. Delivery speed and accuracy are obviously important and we like how we're leveraging our physical assets.

In the US, we have more than 4,000 stores and nearly 600 Sam's Clubs making same-day deliveries, and in nearly 2,000 stores and clubs internationally. We're increasingly measuring those deliveries in hours rather than days. In China, where we deliver from all our stores, nearly 80% of digital orders are delivered in under one hour.

I like how we're constantly improving delivery speed. It's important to our customers and to our strategy and I like how we're building mutually reinforcing businesses. Running great stores and scaling eCommerce are and will be our top priorities. The way we design them, along with our marketplace, fulfillment services and advertising business is key. We'll keep prioritizing omni-retail, but we have good opportunities in healthcare and financial services in multiple markets.

The growth of PhonePe has been fantastic and we're building other financial products like Cashi in Mexico and through ONE here in the US. We continue to build our healthcare services capabilities with clinic expansion. As I look at the remainder of the year, our immediate focus is on getting product costs and retails down to fight inflation, which will help with mix, improving execution of pickup & delivery orders, expense management, and inventory management by item and category.

I'll wrap up by saying a big thank you to our associates. As always, they're making a difference every day for our customers and members. As we close out back-to-school and get ready for the holidays, their execution day-to-day and commitment to our customers and members is as critical as ever.

Thank you for your interest in our company. Over to you, John David.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

Thanks, Doug. I'd like to start by thanking our customers, associates and partners for helping us deliver another strong quarter with better-than-expected results in sales, operating income, and adjusted EPS. Sales were strong across all segments, and we gained US market share in grocery in both units and dollars, while delivering gross margin rate expansion. Our focus on saving customers time and money continues to resonate, especially at high-volume seasonal periods.

We have good momentum in the business. Year-to-date, we grew sales by over 6.5%, adjusted operating income by about 12%, and adjusted EPS by roughly 8%. With our Q2 results coming in better than expected, we're increasing our full year guidance and we're well positioned as we enter the back half. I'll discuss guidance shortly, but first I'd like to review highlights of our Q2 results using our financial framework of growth, margins and returns.

Starting with growth; for the second quarter, constant currency sales increased 5.5% or more than \$8 billion. Walmart US comp sales, excluding fuel, increased 6.4% with growth in both store and digital transactions. Grocery and health & wellness sales continue to outperform, and we're encouraged by the modest sequential improvement in general merchandise.

eCommerce sales were up 24%, driven by store-fulfilled pickup & delivery and advertising. We like the trends we're seeing in eCommerce. Customers are increasingly counting on us for convenience and they're visiting our app and sites more often. In Q2, weekly active digital users grew more than 20%.

Similar to Q1, consumer spending remains resilient at the headline level. Customers are stretching their dollars further and seeking better value across more categories, more often. We see grocery staples and in-home meal options being purchased more often. Sales of general merchandise, kitchen tools like hand blenders and stand mixers have inflected higher, as customers are preparing more food at home. They're also buying more necessities and focusing on lower-priced items and brands. And customers still want to celebrate key moments.

Over the last year, here in the US, we've partnered with suppliers to utilize rollbacks and offer select seasonal baskets of goods at the same prices as last year, essentially removing the impact of inflation. Customer response has been strong and sales have exceeded plan for events like Memorial Day, 4th of July and our Walmart+ Week savings event. We're taking a similar inflation-fighting approach to back-to-school with a basket of 14 of the most popular classroom essentials for under \$13.

In our International segment, sales were strong, up 11% on a constant currency basis, led by double-digit growth in Walmex, China and Flipkart. eCommerce grew 26% and we experienced positive store traffic across markets.

Similar to the US, customers are still pressured by elevated inflation with spend over-indexing towards food and consumables. We're seeing a higher private brand penetration across markets, as customers globally look for a combination of value and quality. And Sam's Club US comp sales, excluding fuel, increased more than 5% with member fee income up 7%.

On margins, consolidated gross margins increased 50 basis points, as we lapped last year's elevated levels of inventory markdowns and supply chain costs. These tailwinds were partially offset by ongoing category mix pressure, as grocery and health & wellness sales outperformed general merchandise.

One of our strategic priorities is improving digital margins with an eye towards eCommerce profitability. I'm pleased with the progress we're making, particularly in Walmart US contribution profit, which has been driven by fulfillment efficiencies and better product margins. We're leveraging our stores to fulfill more than 50% of digital orders and activating our local delivery networks to get product to customers faster at lower cost. At our Investment Community Meeting in April, I said that we expected 200 basis points of improvement in contribution profit this year and we're on track to achieve that goal.

We're also pleased with the performance of our higher-margin growth initiatives that reinforce our core omni-retail model. I'll provide highlights on each of these. First, marketplace. We're continuing to scale our marketplace in the US with new items and sellers. The number of customers buying items on our marketplace increased 14% in Q2. Sales were strong in both consumables and general merchandise categories, with double-digit growth across home, apparel and hard lines. And the number of sellers utilizing our fulfillment services increased more than 50%.

In Mexico, we also expanded the number of sellers and items available on the marketplace, resulting in 40% GMV growth for the quarter. In Canada, we opened our first automated eCommerce fulfillment center in Alberta, which includes Walmart Fulfillment Services and expands two-day shipping to 97% of households. And in India, Flipkart's Myntra is the country's largest eCommerce marketplace for fashion and lifestyle products, offering top brands to customers across India. Myntra now provides access to more than 6,000 brands on its marketplace.

Moving to advertising. Our global advertising business delivered strong growth of approximately 35%. In the US, Walmart Connect sales increased 36% in Q2 and the business has nearly doubled in size over the past two years. We're seeing strong growth in sponsored ads and increased demand for in-store activation. Advertiser count grew 60% with strong momentum in new advertisers.

Sam's advertising business grew 33%. The in-club sales attribution feature for search and sponsored ads has generated strong interest from advertisers. On average, advertisers have seen a nearly 30% improvement on the returns of digital ad spend, as they gained full visibility to the member journey from intent to purchase, both online and in clubs. And in International, the advertising business grew nearly 40%.

And lastly, membership. Sam's Club US member counts increased mid-single digits with strong Plus membership growth in renewals, as Plus penetration is up 1.3 percentage points versus last year. During the quarter, we achieved record member acquisition tied to Walmart+ Week and continued to enhance the value of the Walmart+ membership. We introduced Walmart+ Assist, which provides a 50% discount off the regular membership fee for customers receiving government assistance. We also partnered with Expedia Group to launch new travel benefits for members.

Turning back to the middle of the P&L. As expected, SG&A expenses were higher versus last year and deleveraged 33 basis points. This reflects higher variable pay expenses relative to last year when we were below our planned performance, tech investments and increased store remodel cost in the US. Partially offsetting this, International expenses leveraged significantly on strong sales growth.

As we increasingly utilize technology in our business, we're pleased with the performance metrics from our newly automated distribution and fulfillment [ph] nodes (00:17:24). Our automated eCommerce fulfillment centers are achieving efficiencies of 30% higher units per hour than non-automated buildings.

We're also seeing increased productivity from the more than 15% of stores now being served by automated regional distribution centers. It's early in the rollout process, but we're encouraged that some of these facilities are driving operating leverage well beyond our initial expectations.

Second quarter adjusted operating income grew more than 8% and our adjusted EPS of \$1.84 was up 4%. Our plan is to grow operating income faster than sales and our second quarter performance achieved this, despite lapping the \$173 million insurance settlement that benefited International's other income last year. Similar to Q1, below-the-line items were pressured by higher net interest expense reflecting the increase in rates and non-controlling interest due in part to stronger results from Walmex.

The team continued to do a good job managing inventory and we ended the quarter down 5%, including an 8% decline in Walmart US. We feel good about the progress we've made on in-stock levels as supply chain has normalized and the composition of our inventory mix has improved. We're maintaining discipline in how we're buying general merchandise during this uncertain macro environment to mitigate future risk if demand softens.

ROI or return on investment declined 100 basis points. As a reminder, we calculate ROI on a trailing 12-month basis and the decline in Q2 is a result of nearly \$4.2 billion in charges we incurred in Q3 and Q4 last year, related primarily to the opioid legal settlement framework and the separation of Flipkart and PhonePe. Together, these negatively impacted second quarter ROI by 140 basis points.

As we lap these discrete charges in the coming quarters, we expect a stronger ROI inflection in the back half of the year. We're also starting to realize some benefits from productivity initiatives that were initially planned for

fiscal year 2025 and we continue to expect our ROI to increase over the coming years. I'll now briefly discuss some additional Q2 highlights for each segment.

For Walmart US, our 6.4% sales comp included a high-single-digit increase in grocery and a high-teens increase in health & wellness. Although general merchandise sales declined low-single digits versus last year, these results were 300 basis points better than Q1, aided by outperformance from early back-to-school shopping and our Walmart+ savings event.

We saw a 240 basis point shift in sales mix from general merchandise to grocery and health & wellness in Q2. Grocery inflation moderated more than 400 basis points from Q1 levels and more than 700 basis points year-over-year to a high-single-digit increase as we lapped higher levels from last year. On a two-year stack, grocery inflation remained over 20%.

We're encouraged by the growth in units sold, particularly in food categories where disinflation is more pronounced, such as fresh meats, seafood and eggs. In addition, private brand sales in grocery were up more than 9% with penetration up nearly 40 basis points in Q2 and up more than 170 basis points on a two-year stack.

Lower markdowns and supply chain costs resulted in a gross margin rate increase of 40 basis points, despite ongoing pressure from category mix shifts. The negative impact to margin mix from outsized growth in branded drugs accelerated in Q2. Other income grew nearly 4%, led by continued growth in Walmart+ memberships. And overall, Walmart US operating income increased 7.6%.

Our International segment delivered another impressive quarter with double-digit sales growth and strong underlying profit growth. Operating income increased 2.2%, but was negatively impacted by 20 percentage points from lapping last year's insurance recovery that I mentioned earlier. Walmex had another strong quarter with sales up 10%, reflecting strength in our Bodega stores, Sam's Clubs and eCommerce.

eCommerce sales grew in the low-20s with traffic up more than 5%. Walmex is an excellent example of our omnichannel retail strength across formats and channels. Bodega Aurrera is celebrating its 65th anniversary and has become the most valuable retail brand in Mexico. These Bodega stores have consistently delivered strong performance and continued to accelerate eCommerce to better serve customers, now offering more than 60,000 SKUs from 586 stores in 299 cities.

In China, sales increased 22%, led by strength from Sam's Club and eCommerce. We're executing well with increased online and offline traffic across both the Sam's and hypermarket formats. In India, Flipkart delivered strong GMV and net sales growth, as the core business continues to perform well. The team continues to focus on expanding the ecosystem of products and services like advertising, travel and healthcare, and on delivering continued contribution profit improvement.

Flipkart's consistent progress in performance reinforces our confidence in the long-term value of this business. India is leading the largest digital transformation in the world and Flipkart is the leading marketplace in India. And we continue to be super impressed with PhonePe's strong and consistent performance. Annualized TPV, or total payment volume, has surpassed \$1.15 trillion and, for the first time, we processed more than 5 billion transactions in a single month.

Sam's Club delivered another strong quarter with solid unit growth and eCommerce up 18%. It's encouraging to see members embrace omnichannel with strong in-club traffic gains and increasing engagement with our digital

tools in and outside the club. In Q2, utilization of Scan & Go increased 570 basis points and curbside pickup saw double-digit growth.

Similar to Walmart, sales strength at Sam's was led by grocery and healthcare categories, as members focus on value and essentials. While discretionary categories were pressured overall, items with compelling price and quality and strong value to market are driving sales. Sam's Club operating income was up 22% due in part to lower LIFO charges.

Turning to guidance. There continues to be a reasonable level of uncertainty in the economic backdrop for the balance of this year. While inflation has moderated and employment levels have been steady, credit markets have tightened, energy prices are higher, and some customers face additional expense from the resumption of student loan payments in October. As such, we continue to be appropriately measured in our outlook. We're raising our full year guidance to reflect Q2 performance in our expectations for Q3.

I'll highlight the key changes, but please refer to the press release for a full list of updated metrics. For the full year, we now expect net sales in constant currency to grow approximately 4.0% to 4.5%. We now anticipate LIFO will be a \$200 million charge to operating income versus the \$500 million charge that was in our prior guide.

We expect operating income in constant currency to increase approximately 7.0% to 7.5%. This now assumes a 30 basis point year-over-year tailwind from LIFO, compared to our prior guidance which assumed a 100 basis point headwind. And we estimate adjusted EPS to be in a range of \$6.36 to \$6.46, including an expected \$0.05 impact from LIFO.

To bridge to our prior guide, we flowed through the Q2 beat, removed the Walmart US LIFO charges that were previously expected in Q3 and Q4, and modestly raised our sales expectations. Looking at Q3, we're now offering the following view. We expect net sales growth in constant currency of approximately 3%. Operating income growth in constant currency is expected to be approximately 1%. This year-over-year growth is impacted by several comparison factors.

We expect ongoing mix pressure impacts to gross margin to continue in Q3. We also expect a negative impact from fuel margins at Sam's Club versus last year's elevated levels. And similar to Q2, variable pay expense is expected to be higher in Q3 versus last year, when we were below our planned performance. We don't typically guide currency, but it's worth noting that if rates stayed where they are currently, we'd see a \$1.6 billion benefit to Q3 reported sales and reported operating income growth would be closer to 3.5%. And lastly, we expect Q3 adjusted EPS of \$1.45 to \$1.50.

In closing, we're pleased with the strong first half of the year and we've positioned the business favorably for the back half. Our financial performance is validating our omnichannel strategy, driving organic sales growth while improving margins and returns. We're optimistic about our ability to improve our performance even more in the future. We like our position.

And now, I'll hand it back to Doug for a few comments before the operator opens the line for questions.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Thank you, John David. Before we take your questions, I want to say a few words about the leadership changes we shared yesterday. Let's start by celebrating Judith. She has done a fantastic job in many roles over the 27 years she's been part of our company. She leaves her most recent role having delivered strong results and having

transformed the business. It's a different portfolio, better positioned for the future, better positioned for growth on the top and bottom line. She strengthened our culture and sets us up for a digital future at the same time. We're grateful.

We're excited about Kath moving into the international leadership role. The results Kath and her team have delivered at Sam's speak for themselves. Her experience and passion to serve customers and members will take us to the next level. It'll be fun to watch her impact around the world.

Some of you have met Chris Nicholas and know how capable he is. He joined us five years ago in a finance role, but with previous experience in merchandising and operations in several markets around the world. He'll keep our member obsession going in Sam's Club US and pick right up where Kath left off.

We also shared yesterday that Kieran Shanahan will join John's team and become our Walmart US Chief Operating Officer. Kieran has 25 years with our company working in a wide variety of roles in all three segments. He's well prepared to lead this big team and the change that's coming through our automation investments in the supply chain.

As they fill these new roles, John, Kath, Chris and Kieran will have all four worked in all three operating segments of our business. There's not only a lot of store and club expertise in this group, but there's also a great deal of digital and eCommerce experience. These are omnichannel merchants, they're purpose-driven with proven leadership skills. The depth of leadership in our company is such an advantage. Batons get passed and we keep running, keep changing and keep pushing things forward. I want to say congratulations to all of them.

And now, I'll turn it back over to the operator. We're happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting the question-and-answer session. [Operator Instructions] Thank you. And our first question is from the line of Robby Ohmes with Bank of America. Please proceed with your question.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Hey. Thanks for taking my question. Doug, you mentioned that you're seeing things in general merchandise, I think, that make you more optimistic about the back half. Can you maybe talk about what you're seeing? I think John David said something about disciplined buying in general merchandise. What are you seeing that's making you optimistic and how should we think about general merchandise? And maybe if you could also weave in there, I know that you guys have continued to mention the high-income customers shopping. I think it's been more grocery focused. Have you seen high-income customers broadening out into the rest of the store?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah, Robby, this is Doug. I'll go first and then John or others can add if they want to. What's making me feel a little bit better is the run rate compared to the previous quarter and how back-to-school started. And typically when back-to-school is strong, it bodes well for what happens with Halloween and Christmas and GM in the back half.

I do think our food and consumables as a percent of total in Walmart US will still go up. Part of it's what's happened with inflation and disinflation in the GM categories. But relative to what I would have thought 90 days ago or when we started the year, GM is holding up better than I would have guessed and I just – I feel like with our store managers and the merchants, we want to have an optimistic posture on GM as we go into the back half.

Anybody want to add anything?

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

Doug, I'd love to – I'd like to give credit to the team for improvements they made. If you think about where we were last year with inventory headwinds for this year. I was in stores this week and it's really clear that stores have the ability and are merchandising their store with discretion appropriately. They're on top of their markdowns, back rooms are in much better shape.

The second thing, I think, that's helping is the eCommerce team has done a nice job launching new products, things like registry for teachers in classrooms and parents and lists. Those are all working and helping back-to-school. And then the last thing that I'd say is the team is doing a really nice job with seasonal events and holidays.

One of the things that we hear consistently from customers right now is they're looking forward to celebrating again like they used to. That's a bit of a theme that's coming through and we certainly saw that from Memorial Day, July 4, back-to-school started strong. So, we're looking forward to the holiday. It's going to be a big holiday season. There are a lot of dynamics, as John David and Doug said, in the market, but we want to remain very flexible and prepared to help people get together and celebrate each of these holidays that are in front of us.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

There are also categories of general merchandise that on our marketplace saw double-digit increases; things like home, apparel, hard lines, which really gives you an indication of how our business is changing as we're selling more third-party assortment.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

It is. And, John David, I think our Plus event you mentioned in your remarks as well was a good example. We had a high level of participation from marketplace sellers. We've talked about the number of items available in the sites up almost 4x from a year ago, our seller count has grown, the number of customers are growing, and Tom and the team have done a nice job building capabilities that will really help us in the future.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

On the second part of your question, Robby, with respect to high-income consumers, we continue to see share gains across all income demographics. I think encouragingly for us in the quarter, the number of categories that we saw share gain in actually expanded. But this has been pretty consistent for five or six quarters now and it really points to the fact that our value proposition is resonating with customers. It's not just about Every Day Low Prices. It's also about convenience and convenience matters to every household income demographic.

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

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thanks for taking our question. With gross margin expanding about 50 basis points in the quarter, is there a way to quantify the buckets of contribution between the higher-margin businesses like marketplace and advertising and the impact mix that's coming from the stronger grocery? And just given the more optimistic general merchandise commentary, is there any update to your mix assumptions in guidance for the second half when it comes to gross margins? Thank you.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

The biggest contributors to the gross margin expansion were really just the lapping of some of the markdowns that we had last year. I would point you to that as the single biggest contributor, but that's not to take away from some of the progress that we're seeing in terms of diversifying or expanding these other higher-margin initiatives. And advertising is one I mentioned in my prepared remarks, up 35% for the quarter. But equally as impressive or perhaps more impressive is the advertiser count was actually up 60% year-over-year in the quarter.

And it stands to reason, if we're gaining share and customers are shopping with us, and advertisers are going to want to spend their money where the eyeballs are. So, we're encouraged about this and it really illustrates the – sort of this flywheel element of our business as we get stronger in marketplace and some of these other initiatives that enables us to go out and be better in advertising and other things that tend to have a higher margin.

Operator: Our next question is from the line of Oliver Chen with TD Cowen. Please proceed with your question.

Oliver Chen

Analyst, TD Cowen

Q

Hi, everybody. And, Judith, congrats as well. The guidance could be conservative based on the great quarter you just had. How are you thinking about what's incorporated in ticket and traffic for next quarter? And also as we look forward to holiday, what are some highlights of how you're planning inventory price point assortment? And back-to-school can often correlate to holiday, so that's very encouraging that you're seeing good performance there.

And just a follow-up, you've done a great job with computer vision and neural networks, especially with inventory management. You called out generative AI and LLM. So, what are your thoughts about how that may intersect with Walmart+ and all the data you have on being a tech enabled in terms of context and customer interaction? Thank you.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

I'll take the last one first. This is Doug, Oliver. Thanks for the question. I'm really excited about what's possible and we've been working for a few years now to try and get our data in better shape, so that we can really put it to work. We've still got room to improve there, but we have made progress. And when you start imagining what we can do to personalize for customers and members more effectively, while still living in an EDLP world and driving the business model that way because that's the winning strategy for us.

There is a great opportunity for us to be more anticipatory and to be more relevant to them and communicate in a way that shows that we know who they are in a healthy way, while protecting privacy. So, having that data go to

work with our own large language models and using large language models from others presents a tremendous opportunity. And I think it'll unlock a lot of use cases on the customer and member side.

As I mentioned in the prerecorded remarks, the opportunity with associates is also terrific. The supply chain is a third area that comes to mind. So, I think this will be an opportunity for us for a really long time to try and grow top line and be more efficient as a company by putting that technology to work.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

I'll take the first part of your question on guidance and maybe start on holiday before I turn to the segment CEOs. But on our assumptions on ticket and traffic, well, we saw a pretty equal balance between those in the second quarter. Both were up, call it, roughly 3%. And we stand to reason that as we get into the back half of the year and we lap some of the higher inflation from last year, that ticket in terms of the balance between those two, we may see a little less in ticket. But we're really encouraged by, as we noted, the strength in units that we had in the quarter, so pleased about that and, again, we're gaining share here. So, I think our value proposition is resonating.

With respect to the holiday, I'll just say one comment and maybe turn it to John. Consumers are not compromising on some of the holiday seasons, so being choiceful in their spending, discerning. But around July 4 and some of the other holidays that we've seen, they're showing a willingness to spend and our team is leaning into that, providing merchandise that they want to buy.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

They are, John David. And we've talked about this for a while that the flexibility in terms of what we offer is meaningful for customers, and the transaction growth we – we're proud of the team, we saw that in eCommerce, we mentioned marketplace. Pickup and delivery have been strong. In-store traffic and transaction count has also been strong. So, having an offering that's there for the customer, however they want to shop, whenever they want to shop is helping us. And having as many locations as we do certainly is an important part of the equation when it comes to delivering.

The last thing I would say is in general merchandise and other categories where we have seen a number of rollbacks this year that are quite intentional. The results are really strong, whether it's the Justice 17-inch backpack or the Frito-Lay multipack, from general merchandise to food, we are seeing rollbacks work across the business and customers are responding. They're choiceful, they're being thoughtful about what they buy, and our merchants have done a nice job of leaning in seasonally to ensure that our rollbacks are in the right places for the customer.

Operator: Our next question comes from the line of Rupesh Parikh with Oppenheimer. Please proceed with your question.

Rupesh D. Parikh

Analyst, Oppenheimer & Co. Inc.

Q

Good morning, and thanks for taking my question. So, I wanted to go to the International business and China specifically. I was hoping to get more color in terms of what you're seeing in the market. Now, for the second consecutive quarter in a row, your results seem to stand out versus some of the weaker macro data points that we're seeing out there in China.

Judith McKenna

President & Chief Executive Officer-Walmart International, Walmart, Inc.

A

Hi. Yeah, thank you. So, I mean the quarter was strong for International overall. And as you heard both John David and Doug mention, China was one of the stronger markets that we had along with Walmex, which had a 10% growth. And both our businesses in India, Flipkart and PhonePe, both had strong quarters as well. A lot of that is driven from just really being close to the customer in those markets and the combination of value and convenience that we're now able to offer.

Turning to China specifically, I actually got back to China this quarter for the first time in 3.5 years. And what really struck me when I was there was the speed with which the consumer has moved. So, the move to online and digital penetration has been extraordinary in our business. It ranges in the mid-40% that we're seeing.

And we have two formats there. We have the Sam's Club format and we have the hypermarket format. And what's interesting is both formats have got positive traffic and both are gaining market share. And I think the reason for that is back to this combination of value and quality and trust that we're able to provide. Sam's Club, in particular, had a really strong quarter again. And we opened a couple of new clubs. We now have 45 clubs across China, and they're really combining great items at great value and they're seeing an interesting trend in higher penetration of very high-ticket items in China, too.

In the hypers, I got a chance to visit some of our remodeled new version hypermarket. You've heard me talk a couple of times about the transformation in hypers that's ongoing. And I was really impressed with the thoughtful way in which the teams had reduced assortment, brightened and freshened stores, increased signage, helped customers navigate not only through great fresh departments, but also made the general merchandise shopping much simpler. So, I think you have two formats there, both of which are leading in the segments in which they operate and that's helping us win customers and our associates, I will just say, there are doing a fantastic job and it was just great to see them after such a long time.

Operator: Our next question is from the line of Paul Lejuez with Citi. Please proceed with your question.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. Curious within food and grocery, how you would characterize the current landscape from a promotional perspective relative to last year and history? And how are you thinking about price investment as a tool to gain further market share, just given the changes in inflation expectations? Thanks.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Well, compared to a year ago, Paul, certainly inflation is at a lower rate than what it was. It's been relatively stubborn in dry grocery more than other places over the course of the year. Price gaps are something that we spend a lot of time on each and every week. We start Monday talking about trading and what's happening in the market. Price is always one of the major topics. We would ensure that our value has been right. And we are pleased with where the value is today. The grocery business is gaining share. Certainly, we're going to watch the market. As I said a moment ago, we do have a number of rollbacks that are effective in food. Our rollback count in food is higher than last year.

It is lower in general merchandise than a year ago, but I'll remind you that last year we were clearing a lot of inventory that had been backlogged. So, the general merchandise rollbacks which are very effective are more

choiceful and, I think, reflective of the seasons that people are in. And our job from here is to ensure that we're ready for people that are getting back to school all across the country the next couple of weeks, colleges, we have tailgating season coming up, Labor Day and we're right into the holiday food season.

Kathryn J. McIay

Executive Vice President, President & Chief Executive Officer-Sam's Club, Walmart, Inc.

A

I'll say, too. I thought promotions is the easy solution to inflation versus doing the hard work of working with your suppliers to work back all of the commodity and cost increases that kind of have been absorbed over the last two years. So, there's a lot of work in just tracking the cost of transportation, and then as that's come down, working back with each supplier to have a look at what proportion of the cost is impacted by that and how do you roll that back. So, I know in Sam's, the team have a great big board, they ring a cowbell every time we get a cost decrease and you flow it on to the member. And I think that's how we want to think about it versus thinking about how do we go out and do promotions.

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

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Good morning everyone. Judith, congratulations and to the every promotion, congratulations. My question is more medium term. I wanted to ask about the inflection on EBIT dollar growth. At Shareholders, we talked about how in fiscal 2025 it should or could get better than where we are today, realizing we're lapping some easy compares from last year right now. Can we hone in on what needs to take place for this EBIT dollar growth inflection, assuming healthy sales, leverage over fixed cost, marketplace ramping, is it advertising? Can you talk about sort of what's in your control and what's more sales-driven as we think about EBIT growth going forward?

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Sure, Simeon. I'll start with maybe a bit of a victory lap here, because the first half of the year has actually been pretty good in terms of the relationship of operating income and sales. We've grown the top line at, call it, 6% and operating income at almost twice that. And that's much better than what we've done historically. So, we're very encouraged internally that we're executing so well right out of the gate after sharing our goals at our Investor Community Meeting in April.

As we get into next year, really what you're going to see is more of a continuation of the strategy that we laid out, as we further diversified our earnings streams. A lot of these areas like advertising and data ventures, these higher-margin businesses, are growing at a rate much, much faster than the rest of our business. And so, as you look at the math around that, our margins just want to go up.

The other thing, as you're well aware of, Simeon, are the efficiencies that come from our supply chain. And so, today, we have roughly 15% of our stores that are served by automated regional distribution centers. And when you think about something like an eCommerce FC, that gives us efficiencies of upwards of 30% on things like units per hour.

And so, as we continue to roll out this automation to the rest of our network, we're going to see the benefits of that in our P&L. You're seeing it right now and it gives us conviction and optimism as we look out over the next several

years to be able to grow operating income at a rate that is faster than sales, and perhaps appreciably faster than sales.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Hi, Simeon. This is Doug. I'll just add on. I think John David said it well. The two threads, the two questions are how's the automation work going and how is that playing through as it relates to productivity, and that's a multiyear implementation of these various forms of automated storage and retrieval systems that we've talked to you about.

And then second one is how is the business model changing and the engine for that is what's the digital percent of total, how is eCommerce growing and what's the pull-through to advertising and the other components that shape that business model. And the reason I'm repeating it is because I wanted to make the point that it's not just the Walmart US business that's going through that transformation.

As I've been traveling in international last few weeks, the commonality from Canada to Chile, and Judith had the team from Mexico in town this week, what Gui and the team are doing there, it's very consistent as it relates to how omnichannel retail is coming to life across our company. So, I think those are the two threads to keep your eye on.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

You didn't frame the question, Simeon, in terms of return on investment, but I want to take an opportunity to talk about that. When we get to the end of this year and you look at our ROI on a trailing 12-month basis, we're going to see a fairly material uptick if you look at our guidance, what's implied there, and that's more than what we expected at the beginning of the year. We actually anticipated that some of the improvements in ROI would come next year and some of the years thereafter. We are actually pulling forward some of those benefits that we expected next year, and so we're going to see some of that this year.

Operator: Our next question is from the line of Kelly Bania with BMO Capital Markets. Please proceed with your question.

Kelly Bania

Analyst, BMO Capital Markets Corp.

Q

Good morning. Thanks for taking our questions, and congrats on your retirement as well, Judith. Wanted to just ask about eCommerce growth. 24%, I think, implied some pretty big market share gains, but led by pickup and delivery and I was curious if you could also just give us a sense of how marketplace and 3P is ramping relative to your expectations and how, if at all, that's impacting the general merchandise comp. And related to that, I guess if you think long term about the profitability of advertising, is there a similar opportunity on the food and consumables side or is it better to have discretionary and 3P a greater mix of eCommerce as it relates to growing advertising profitability?

John R. Furrer

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Hey, Kelly. Thanks for the question. One, really happy with the performance and the team deserves credit for a lot of improvements that enabled the 24% growth. When we talk about pickup and delivery specifically, I think I would take a step back and just remind everyone what we talked about at our investor conference and what we're

ultimately trying to do with supply chain in the entire eCommerce business is densify our inventory at the first mile, make the middle mile as efficient as possible and then shorten the last mile.

And our store locations, over 4,700 locations in addition to the fulfillment centers enable us to do that. So, what's happened over the last year or so is more of our eCommerce business and deliveries have come from stores because that's where the inventory is closest to the customer and helps us with efficiency. So, it's important to frame that as a part of the total. The way we measure this internally is we look at the number of transactions and customers and what they bought in the store or what they picked up and what was delivered.

On the second part of your question, really pleased with the progress in marketplace. Our Plus event was a good marker for us in terms of what's possible with the marketplace. A majority of our revenue from that event was driven by marketplace sellers and I'm thankful that the sellers who participated and helped us find customers – or helped our customers find value at a time when they're looking for value and that was across all categories, including general merchandise. In fact, much of the event was general merchandise. So, I think the team has positioned the marketplace well.

In terms of the second part of your question with advertising, there are opportunities for sellers. There are opportunities for suppliers. We'll continue to learn, grow and experiment in stores and on the site. We want to ensure that Walmart Connect, the name Walmart Connect connects our buyers, suppliers and sellers all to our customers in a way that's accretive to the customer experience. We want to make sure that customers are finding what they want, when they want it. And if this business can help people connect together, that's great. And we saw that happen in the quarter and the growth was higher than our eCommerce growth.

Judith McKenna

President & Chief Executive Officer-Walmart International, Walmart, Inc.

A

If we're talking about eCommerce and marketplace, in particular, it would be remiss of me not to talk about Flipkart and the growth that we'd seen there. We were there as well recently and that business is just continuing to go from strength to strength. It's consistently performed in line with our expectations over the last few years.

I'm really pleased to see the positive contribution margins continue and then their business mix is really quite healthy. So, seeing strength in hard lines, particularly across mobiles and electronics as well. The scaling of our ecosystem is also helping contribute not only to the overall business, but also to their advertising revenues as well. So, interesting, coming back to this theme of quality and convenience for people, they recently launched in their Cleartrip business luxury packages of holidays in India, which are going incredibly well as well.

Myntra, which is the largest fashion online retailer in India, as John David mentioned as well, they've just launched a MyFashionGPT capability as well which is quite incredible. And I used it this morning. I put in what to wear to go to the airport, and they gave me to England to the airport and they gave me black T-shirt, black leggings, a jacket and sunglasses, which I think was rather optimistic needing the sunglasses for England, but it shows you the power of what, I think, GenAI can do in the future and it's really coming to life in India. It's just a great business and being proud to be able to be associated with it for the last five years.

Operator: Our next question is from the line of Edward Yuma with Piper Sandler. Please proceed with your question.

Edward Yuma

Analyst, Piper Sandler & Co.

Q

Hey. Good morning. Thanks for taking the question. You guys have done a lot to enhance the accessibility of Walmart+, you've added a ton of new features. I guess, as you sit back and assess the success of the program, kind of what's turned the dial the most? And then in terms of the data you're able to now collect, where have you been able to kind of pivot and change the flow of business based on some of the stuff that you're collecting from these Walmart+ customers? Thanks.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

Hey, Edward. Certainly, we want to have a digital relationship with as many customers as possible, pleased with the growth overall, and as we've talked about before, Plus is an important part of the offer we have. I would pull the reason back that Plus has had more success to the very core of the offer. The offer was established to [ph] limit (00:55:11) the number of deliveries people get without having a charge in those deliveries from both the fulfillment centers and the stores. And we launched this in 2020, certainly had issues at that point with availability and we've had inventory imbalances, but in the last year or so, the focus continues to be and improvements have been in the core.

We measure every week something we call perfect order. The stores are very focused on what we call the first-time pick rate, which is picking the order the first time they look for it. And then another thing that we do very intentionally is measure what percent of the order was delivered before there were any substitution. So, what customers are looking for is exactly what they've ordered at the time that they expected it to be delivered and that's the way we hold ourselves accountable.

Certainly, the other benefits are helpful. There are different features that people are using and it is important to have a variety of benefits. But the core of the offer is the most important thing that we'd have to execute going forward.

Operator: Our next question is from the line of Seth Sigman with Barclays. Please proceed with your question.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

Hey. Good morning everyone. I wanted to follow up on the value proposition that Walmart offers today. So, private label seems to have a lot of momentum and is likely one of the factors that's helping drive market share here. How are you managing private label differently than in the past? And how do you think that plays into the competitive gap here, more from a basket-level perspective? And then ultimately, do you think that this advantage is sustainable even in an environment where maybe inflation moderates or prices decline? Love some perspective on that. Thank you.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

It's important for us to have a wide range of assortment for a broad section of customers, where all over the country, situations are different for different customers. And whatever the situation is for – in particular customer, then that's what we want to be there for. We've talked about this before.

We don't set targets or percentages of the business that we expect private label to grow to or be a part of. It's important that we have values on brands, on branded items. It's important that we have values and quality across the portfolio in eCommerce and stores. And in the last few quarters, customers have chosen the private brands at Walmart at an accelerated pace. I think there are a lot of reasons for that. But if our quality and price [ph] weren't

in the (00:57:35) position that it needs to be, then they wouldn't repeat. So, we'll continue to stay focused on quality and value there.

Kathryn J. McIay

Executive Vice President, President & Chief Executive Officer-Sam's Club, Walmart, Inc.

A

Yeah. And I think from a Member's Mark perspective, we have seen our metrics around value for money and NPS and quality, where Member's Mark just continued to improve. And we're seeing members choose it because of the quality of the item, because of innovation into those products and also because the great value that they get out of the Member's Mark price/quality combination.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Seeing leverage across markets with private brands, too, whether it's Great Value or Member's Mark.

Judith McKenna

President & Chief Executive Officer-Walmart International, Walmart, Inc.

A

Yeah. Member's Mark, of course, is available in our Sam's Clubs globally around the world, but also many other items as well. And I know you were in Chile recently, Doug, and they have a phenomenal international food aisle, which is showing incredible growth, many of which are private brands which are imported from around the world, from the rest of the Walmart world.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

When I was in Canada, they made me Great Value tomato ketchup potato chips. I'm out on that. But that's not – I'm sure Canadians love it, but that's one private brand item that I'm not a fan of.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

He made some of us eat that.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. John David liked them better than I did.

Operator: Our next question is from the line of Corey Tarlowe with Jefferies. Please proceed with your question.

Corey Tarlowe

Analyst, Jefferies LLC

Q

Hi. Good morning, and thank you for taking my question. I was wondering if we could just take a step back and assess the health of the overall customer maybe in the US and also perhaps internationally versus the first quarter and into the second quarter. And how you're thinking about the general health of the customer throughout the remainder of this year? And then just secondarily on shrink, what are you seeing as it relates to shrink? And what are you expecting ahead as we think about that particular dynamic?

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Kind of from an enterprise point of view, just on the customer and member first, and others can chime in on that. I feel like that our position is one where if things do get tougher, they're going to increasingly look for value and we're going to be able to grow the top line. Hopefully, things do get better. And there are a lot of conflicting data points, but you guys see the same data that we do. There are reasons to be optimistic in areas like employment and the wage inflation that's happened. And there are other reasons to be concerned as consumer balance sheets potentially weaken over time.

But again, we like our position. We like it in terms of the breadth of product categories. We can sell whatever people want to buy. We like it in terms of the way we can serve people, whether it's curbside or it's delivery or it's in a store club. So, our job is to grow our share, to win through the customer value prop, which is price, assortment, experience and trust. And whether that's in Mexico or the United States, that's the position that we've put ourselves in and we just need to execute against that.

On shrink, John, you can comment too, but I'd just remind everybody, from a total enterprise point of view, we're more than a domestic retailer. And we've got 19 countries. We've got Sam's Club. We've got a variety of businesses. And so, it's not necessarily the same answer as maybe some of the others that are in the news about shrink.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

And, Doug, I'd add that, of course, shrink is an important part of margin, but there are many parts of margin that are important to be able to deliver for customers. And the first is, we want to make sure that we're pricing as low as possible, so customers find the greatest value that they can possibly find.

Shrink has increased a bit this year. It increased last year. It's uneven across the country. It's not in every market. Some markets are higher than others. But we do have the tailwinds that we mentioned earlier which are cost of supply chain and markdowns from last year. So, a lot of components go into this. We'll keep watching it. We don't want it to go up obviously because it could cause prices to rise, and we've heard that across the market, but it is a part of what we're managing and the team is doing a nice job with value, and the team is doing a nice job managing the margin in total.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Shrink is comprised of more than one thing. That's a part of it. And we do think that in some jurisdictions here in the US, there needs to be action taken to help protect people from crime, including theft. The other part of shrink is more controllable, and we stay focused on that as a priority.

Operator: Our next question is from the line of Krisztina Katai with Deutsche Bank. Please proceed with your question.

Krisztina Katai

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning. Thanks for taking our question, and I'll add my congratulations to Judith as well. I have a question on Sam's Club. I think I heard you say mid-single-digit member growth within the quarter. So, can you

talk about your membership gains and the momentum that you have been seeing in the business as well as the renewal rate and how you think about membership value for the consumer in the face of moderating food inflation? And then secondly if I could just ask on the private label penetration that is still increasing, just how are you generally anticipating volumes to play out in the back half of the year between your private brands versus your national brands as rollbacks are increasing? Thank you.

Kathryn J. McIay

Executive Vice President, President & Chief Executive Officer-Sam's Club, Walmart, Inc.

A

If I start with just talking about the member health. We've seen historic growth in our membership base over the last few years, and we continue to see growth in absolute member numbers. Our tenured renewal rate held, so it didn't increase or decrease, it held from quarter to quarter. And we are continuing to look at different ways to introduce people to the value of a Sam's Club membership. And so, you've seen us over the years try a couple of different things.

On our 40th birthday, we had a great price for new members. Really that's just an opportunity to invite people in to experience for themselves what the value of membership looks like, and then we want to turn them into a tenured renewal member going forward. So, we feel strong about the health of our membership and the growth that we've seen.

John R. Furner

President & Chief Executive Officer-Walmart US, Walmart, Inc.

A

At Walmart, on our membership, consistent growth last few quarters, but we really did have a successful Plus event, really good results all across the business. As I said earlier, the core of the offer is the most important thing that we deliver, and that includes perfect order or fill rates and availability. Customers trust us to be able to deliver their food, consumables and general merchandise items consistently and on time.

On the question on private brand volume, I would also just repeat consistency over the last couple of quarters, and we've talked about growth of private brands really since the beginning of 2022. Again, we don't have targets on that. We want to be there for customers, regardless of what they choose, whether it's a branded item or private brand item on private brands, we stay focused on quality and value.

And in some cases, like if you're in a store today, you would see a rollback on Great Value Mustard and it's working really well. It's a staple that has seen really great growth because of values that we offer. So, getting prices back down and dry grocery is important for the consumer and we want to be able to help them and lead that in any way that we can.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

If I can just say one other thing on private brand. We discussed that because I think it gives a good indication on how the consumer is being pressured right now, but that is not a driver of our margin performance. While the overall margin on private brand may be a little bit higher, the dollar profit is about the same. And if you look at the shift in composition year-over-year, we're only talking 40 basis points. So, this is not a driver of our financial results. So, if we see a reversion there, it's not going to have any outsized impact on our business.

Operator: Thank you. Our final question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser

Analyst, UBS Securities LLC

Q

Good morning. Thanks so much for taking our question. Doug, is it fair to think that Walmart has more visibility into its gross margin rate heading into next year than it has in recent memory, given the inflection in the profitability of the eCommerce business, the contribution from alternative profits, presumably less of a drag from GLP-1 drugs and the prospect that general merchandise is better? And if that is fair, do you take this as an opportunity to double down and accelerate some of the investments that clearly have been working and translating into share gains? Thank you.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Hey, Michael. Thanks for the question. We didn't see COVID coming, and we didn't anticipate inflation to be as high as it has been in the United States. If you could tell me what we're not anticipating right now, I might be able to answer your question about next year.

I think your underlying premise that we kind of know what the shape is and we're not in this position that we were 12 months ago with inventory has got some truth to it. As it relates to doubling down, I think we are being aggressive. We are currently going through our long-range planning cycle. And as we look at our opportunities to invest next year and over the next five years, we look at that board and we get excited about it.

John David made the point in a meeting earlier this week that isn't it cool to be a part of a company that started in 1962 that sees opportunities to drive strong returns with today's investments to help you contemporize the business for the future and I agree with that. Like it's a really cool spot to be in, to have cash flow, to have this strong business, and to have opportunities in front of us that transform the business and create another level of operational excellence through productivity, for example.

So, I think we've got an aggressive plan. And we talked at the investor conference about our capital plan and we continue to see opportunities to invest to grow top and bottom line, and we expect ROI to go up over time. It may not happen that every quarter operating income grows faster than sales, but over time, as we said in the investor conference, we expect that to be the case, because of productivity in the business model shape. So, I'd just repeat what we said there. I think we're being appropriately aggressive, given the environment and I'm excited about that.

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Yeah. I would just add, Michael, just like you view a portfolio of stocks, you diversify because it reduces the risk. I think in some ways, we're doing the same thing with our business. We're not solely dependent upon just what's happening with brick-and-mortar retail, like we've got other income streams that by definition sort of the diversification of that reduces our dependency on any one thing and also reduces the risk around that too, so we feel pretty good about our outlook.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

A

Just maybe one more comment on strategy. As we go through this year's cycle and I think this was true to a large degree last year, it's pretty common. But we know what the components are. And it's a challenge to execute it across multiple fronts. And it's full-time work to run great stores and clubs.

It's also full-time work to grow an excellent eCommerce business and there are lots of components to that, and it's got to happen around the world. But we've got the resources and, importantly, we've got the talent to do it. And so, I think the shape of that board, kind of the where to play aspect of our strategy looks pretty consistent and that builds confidence. We just were in execution mode, and we like the plan that's right in front of us.

Operator: Thank you. We've reached the end of the question-and-answer session. And I'll now turn the call over to Doug McMillon for closing remarks.

C. Douglas McMillon

President, Chief Executive Officer & Director, Walmart, Inc.

Before I wrap things up, I just want to acknowledge the tragedy that happened in Hawaii in Maui. The company has stepped forward with financial support for the United Way and Red Cross. As you would expect, we're providing essentials and providing supplies. We're flying merchandise there. We're bulking up on what people need and our team on the ground has done a fantastic job. Our store manager there is [ph] Chris Pierce and Chris (01:09:55) and his team have supported the community there as you would expect them to and we're really proud of them. That was a terrible tragedy.

I mean as we wrap up, I'll thank you for your focus on our business. As I mentioned just a second ago, we are really excited about what's in front of us. I think you know what the plan is. We're positioned to grow the top line. Over time, we can grow profit faster than sales through productivity and shaping the business model differently, which will result in higher levels of return on investment, and we're excited about delivering that and I'm grateful to what everyone did for this quarter.

And I want to thank Judith for what she's contributed to this company. It's been really significant and we're going to miss her. Thankful she's sticking around for a little while to help us on things, and I'm excited for Kath and Chris and Kieran. Walmart's got a deep bench, and we'll just keep going. Thank you all for your time.

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

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