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**Walmart, Inc.** (WMT)

Q2 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to Walmart Fiscal Year 2025 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 begin.

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### **Stephanie Schiller Wissink**

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

Thank you. Welcome, everyone. We appreciate you joining us and your interest in Walmart. Joining me today from our home office in Bentonville are Walmart CEO, Doug McMillon; and CFO, John David Rainey. Doug and John David will first share their views on the quarter, and then we'll open up the line for your questions. During the question-and-answer portion, we will be joined by our segment CEOs John Furner from Walmart US; Kath McLay from Walmart International; and Chris Nicholas from Sam's Club.

For additional detail on our results including highlights by segment, please see our earnings release and accompanying presentation on our website. We will make every effort to answer as many of your questions as we can in the hour we have scheduled for this call. As a courtesy to others, please limit yourself to one question.

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 a cautionary statement regarding forward-looking statements as well as our entire Safe Harbor and non-GAAP reconciliations on our website at [stock.walmart.com](http://stock.walmart.com).

Doug, that concludes my intro. We're ready to begin.

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### **C. Douglas McMillon**

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

Good morning, and thanks for joining us. We had another good quarter with strong sales growth and even stronger profit growth exceeding our expectations. The team not only drove our short-term results, but they also continued to drive change, setting the stage for our future. Their good work is resulting in our customers and members not only being able to save money on an increasingly broad assortment, but also save time. Convenience matters, and we're uniquely positioned to provide it.

When I'm out in stores and clubs around the world or shopping on our app, I'm seeing the benefits of doing the basics well. Inventories are in good shape, merchandising is improving, and our associates are making good things happen. The strength we saw for the quarter was broad based. Our business outside the US continues to lift the total company in terms of sales and profit growth. Walmex had another strong quarter and India Flipkart again delivered positive contribution margin and PhonePe continues to deliver amazing growth in total payment volume. In China, strong membership trends and Sam's Club continue to drive double-digit sales growth, and about half of our sales there are digital.

We continue to gain market share, including in general merchandise, and transaction counts and unit volume are up across markets. In the US, for both Walmart and Sam's Club, comp sales were fairly consistent throughout the quarter. Food continues to be strong and it's encouraging to see improvements in general merchandise. And our US health and wellness business in Walmart and Sam's Club, primarily due to sales of GLP-1 drugs, is contributing to our strong comp sales. So far, we aren't experiencing a weaker consumer overall.

Around the world, our customers and members continue to want four things: they want value; they want a broad assortment of items and services; they want a convenient and enjoyable experience buying them; and they want to do business with a company they trust. These four things are constant, but the way we provide them is changing and changing fast. The results we're delivering are due to real progress across these dimensions.

As it relates to value, we're lowering prices. For the quarter, both Walmart US and Sam's Club US were slightly deflationary overall. Walmart US food prices were slightly inflated as we exit Q2, but down 30 basis points versus Q1. In Walmart US, we have more than 7,200 rollbacks across categories. Customers from all income levels are looking for value and we have it. As it relates to assortment, our item and seller count continues to grow. Walmart US marketplace sales grew 32% for the quarter. If you're a Walmart customer, you have so much to choose from. And if you're a seller, you're going to want to be on Walmart.com.

As it relates to the customer or member experience, eCommerce sales grew about 20% for each segment and 21% overall. Sometimes, it's most convenient or enjoyable to visit one of our stores or Sam's Clubs. Sometimes, it's more convenient to pick up an order, and sometimes it's more convenient to get it delivered. Our store and club businesses are growing. Pick-up is growing faster than our in-store or club sales, and delivery is growing even faster than pick-up. Delivery accuracy and speed continue to improve. Our eCommerce progress creates more optionality for our customers and fuels the growth of our newer businesses. Globally, membership income grew 23%. Walmart+ memberships were up double-digits, and Sam's Club US achieved a record high member count.

Globally, advertising grew 26%, including 30% growth for Walmart Connect in the US. Advertising sales driven by marketplace sellers were up nearly 50%. As it relates to strengthening our business for the future, we continue to be pleased with the automation work happening in our supply chain and our progress with technology overall. We're finding tangible ways to leverage generative AI to improve the customer, member and associate experience. We're leveraging data and large language models from others and building our own.

One example is that we've used generative AI to improve our product catalog. The quality of the data in our catalog affects nearly everything we do, from helping customers find and buy what they're looking for, to how we sort inventory in the network, to delivering orders. We've used multiple large language models to accurately create or improve over 850 million pieces of data in the catalog. Without the use of generative AI, this work would have required nearly 100 times the current head count to complete in the same amount of time. And for associates picking online orders, showing them high-quality images of product packaging helps them quickly find what they're looking for.

Customers and members are already enjoying AI-powered search on our app and site, and now they'll have even more help with a new shopping assistant that provides advice and ideas, answering questions like which TV is best for watching sports? Looking ahead, the assistant will be able to respond with more specific follow-up questions, like how's the lighting in the room where you'll place the TV?

Helping our sellers on our marketplace is also an area where we see opportunities to be better using generative AI. As we work to do all we can to help our sellers grow their businesses, we're testing a new experience to select US-based sellers that allows them to ask us anything. We want our sellers focused on selling, so the more we can make it a seamless experience, the better. The new assistant will quickly summarize and provide the seller with succinct answers without them having to sort through long articles or other materials.

The use cases for this technology are wide-ranging and affect nearly all parts of our business, and we'll continue to experiment and deploy AI and generative AI applications globally. We're anchored in the responsible use of AI, while also moving with speed and in an EDLC way to meet our future needs and scale these experiences.

Today's Walmart is different. We are people-led and tech-powered. We put ourselves in a position where we can continue to grow because we're serving people however they want to be served. We can grow profit faster than sales while investing in our associates and lowering prices for customers and members, and we can grow ROI as we make the right capital investments and grow profitability.

Before I close today, I'd like to welcome Bob Moritz as the newest member of Walmart's Board of Directors. Bob brings more than 38 years of global business experience, including as the Global Chair of PricewaterhouseCoopers until his retirement in June of this year. Bob's experiences and skills are highly relevant to the oversight of Walmart's governance and strategy, and we're excited to have him. As always, I'd like to thank our associates. They've delivered a great first half of the year and we're looking forward to a strong second half.

With that, I'll turn it over to John David.

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**John David Rainey**

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

Thanks, Doug. I want to start with thanking our team for delivering on a good quarter. We're pleased with our results and the continued progress we're making executing our strategy. Since we shared our financial outlook at our Investor Day in April of last year, on average, we've increased our quarterly sales by more than 5% and our quarterly operating income by 9%.

These financial results reflect that our value proposition extends beyond great prices into convenience. Our combination of price, trust, assortment and experience has made us more relevant with our customers and members than ever before.

Q2 sales, operating income and EPS all exceeded the top end of our guided ranges. Second quarter total net sales growth was 4.9% on a constant currency basis, with all three operating segments outperforming our expectations, aided by strong global eCommerce growth of 21%.

In Walmart US, comp sales growth of 4.2% was driven primarily by strong traffic and unit growth across both stores and digital channels. Customers continue to be discerning and choiceful, looking for value to maximize their budgets while leaning into seasonal celebrations. The pace of sales was largely consistent by month during the quarter. Across categories, we're providing low prices and winning customer consideration, including in general merchandise, with Walmart US comp sales growth in hardlines, home and fashion.

We're also seeing higher engagement across income cohorts, with upper-income households continuing to account for the majority of gains, even while we grow sales and share among middle and lower-income households. We're seeing private brand penetration continue to increase, and we're highly encouraged by customer uptake of our new food brand, bettergoods, and the early excitement surrounding the relaunch of our young adult fashion brand, No Boundaries.

eCommerce sales in Walmart US were up 22% and weekly active customers increased 20%. In addition to the great progress we're making in our fulfillment centers, the close proximity of our stores to customers has also unlocked new capabilities and enabled faster delivery times. Store-fulfilled delivery was up about 50% in Q2, with customers increasingly choosing and paying for delivery of their eCommerce orders in under one hour or under three hours.

Our international business delivered constant currency sales growth of 8.3%, reflecting strength in Walmex, China and Flipkart. Across markets, sales were strongest in food and consumables categories, and we're encouraged that general merchandise growth has improved year-over-year. Our private brand penetration increased in multiple markets, as customers continue to focus on value. In our Bodega and Walmart formats in Mexico, nearly half of customer orders included a private brand item in Q2.

eCommerce sales in our international markets were up 18%. Customers are responding favorably to the increased convenience as we scale pickup and delivery capabilities. In China, we increased eCommerce orders delivered within one hour by 28% to 59 million orders. And in India, Flipkart grocery grew over 50% while providing next day delivery in over 200 cities. And in Canada, our Delivery Pass members drove more than 40% of grocery delivery sales, with order frequency significantly higher than that of non-members.

Sam's Club US comp sales ex-fuel increased 5.2%, including eCommerce growth of 22%. Digital engagement remains strong, with Scan & Go penetration surpassing 30%. And with our increased convenience of our Just Go technology now operational in 325 clubs, over 50% of our members can exit without a check, improving member NPS by more than 800 basis points compared to the clubs without this technology.

The Member's Mark private brand continues to drive excitement as sales and digital penetration increased during the quarter. Sam's is also growing membership across all income levels and with younger demographics, with Gen Z and millennials constituting about half of new members in Q2, a positive signal about the future growth of the business.

From a margin standpoint, consolidated gross margins expanded 43 basis points, led by Walmart US and international segments. We're focused on providing everyday low prices for our customers and members, and we're managing US pricing aligned to competitive price gaps. Customers and members are responding to our value proposition. We're seeing continued sales growth, share gains and higher gross margins. We're demonstrating that we're able to grow our business on a sustained basis in the absence of price inflation.

Global eCommerce losses continue to narrow, most notably in our Walmart US and Flipkart businesses. While improved business mix is helping, we're also encouraged by the progress in core eCommerce margins due largely to another quarter of nearly 40% reduction in US net delivery cost per order. Flipkart's contribution margin also expanded significantly in the quarter. Scale and delivery density are key. As more customers are shopping with us more often across more categories, we're improving delivery density and transaction-level margins.

With improving business mix, we're continuing to reshape our profit composition as we scale growth drivers, such as advertising, membership, marketplace and fulfillment, and data analytics and insights. Our advertising businesses around the world continue to scale, with global advertising up 26%. This was driven by another strong quarter from Walmart Connect in the US which grew 30%.

We're also pleased with the trends in our membership programs. In the US, Walmart+ membership income grew double-digits again this quarter, and Sam's Club US reached another record high level for member counts and

plus member penetration, resulting in 14.4% membership income growth. Within international, membership income in China from our Sam's Club business grew 26% as member count continues to increase. And in May, we opened our 48th club in China, and we welcomed around 50,000 people on opening day.

For marketplace and Walmart fulfillment services, in the US, we've now seen more than 30% growth in each of the past four quarters, as we continued to increase seller counts on the platform by double digits. Growth from sellers using our marketplace fulfillment services increased 800 basis points in Q2, surpassing 40% penetration. Sales in fashion, toys, hardlines and home all grew more than 20%.

Outside the US, we're seeing similar trends as we enhance our capabilities in product assortment. For example, Flipkart delivered double-digit top line growth and more than doubled the number of units they delivered same day. In Mexico, we grew marketplace items and sellers by around 60%. And in Chile, we launched cross-border trade, adding sellers from China and the US to our local marketplace offering.

Within data analytics and insights, Walmart Data Ventures continues to see strong results as clients value the insights we provide, bringing together consumer behavior with omnichannel sales and inventory trends across our platform. Our client base has increased nearly 200% versus last year, as we launched new tools and enter new markets, including the expansion of our Walmart Luminate product in Mexico in May.

We're also optimizing our business model to deliver greater efficiency. I've been encouraged by how our teams have renewed our long-standing everyday low cost operating mindset. Ideas are being implemented across the organization and they're beginning to yield tangible results. By leveraging our scale as a global enterprise, we're finding savings in supplies, transportation, storage, third-party service contracts and various other expense categories. In other areas, we're maximizing the utilization of our assets and using tech to streamline our operational processes. Together, these efforts translate into meaningful savings.

We're also making good progress on our supply chain transformation and we're seeing the direct benefits to customer experience. In Walmart US, more than 45% of our eCommerce fulfillment center volume is now automated, and we have about 1,800 stores receiving some level of freight from 15 of our regional distribution centers that are in varying stages of automation implementation. And as a result, our supply chain teams are processing more units through our DCs and FCs.

And while we're spending more on CapEx than we have historically, we're pleased with the returns from these investments, particularly the automation of our supply chain. We expect these investments to yield returns that will allow us to increase our return on invested capital each year. Importantly, our evolving business model with more diversified and durable sources of profit has provided the ability to fund investments in prices for our customers, wages and benefits for our associates, and leading edge technologies to power our growth, all while delivering on our financial framework of operating income growing faster than sales.

Wrapping up Q2 results, consolidated adjusted operating income grew 7.4% in constant currency, reflecting strong growth in sales, gross margins and membership income, partially offset by expense deleverage across segments, largely related to increased marketing and higher variable pay expenses tied to our above-plan performance. Operating income also benefited from reduced eCommerce losses during the quarter. Adjusted EPS of \$0.67 per share was above the upper end of our guidance of \$0.62 to \$0.65.

Turning to guidance. For the first half of the year, we reported net sales growth of more than 5% and adjusted operating income growth of almost 10%. We are raising our full year guidance to reflect strong first half results. Looking at the second half of the year, we expect the business to achieve sales growth in line with our financial

framework and for sustained, structural improvements in incremental margins. This should result in operating income growing slightly faster than sales when looking at the second half in total. We now expect full year FY 2025 sales growth of 3.75% to 4.75%, and operating income growth of 6.5% to 8% versus our prior guidance of growth of 3% to 4% and 4% to 6%, respectively. Adjusted EPS is expected to be \$2.35 to \$2.43 versus prior guidance of \$2.23 to \$2.37.

We're focused on executing on the things that we can control, focused on our business and serving our customers and members. But the economic and geopolitical backdrop that we operate in is perhaps more uncertain than normal and we're not completely immune from the volatility that can result from this. And while we have not seen any additional fraying of consumer health in our business, other economic data out there, as well as the state of affairs globally, would suggest that it's prudent to remain appropriately cautious with our outlook.

Reflecting these considerations, our guidance is for growth in Q3 sales of 3.25% to 4.25%, and operating income of 3% to 4.5%, with EPS expected to be \$0.51 to \$0.52. There are two primary factors influencing Q3 operating income growth. First, as is the case in most years, the timing of festive events in our international segment has a bearing on sales and profits by quarter and can affect year-over-year comparability in growth rates; and second, the timing of planned expenses is more concentrated in Q3 versus Q4.

In closing, with the results we've delivered through the first half, we're in a good position to achieve our financial goals for the year. Our business model is delivering strong momentum, eCommerce is sustaining its strong growth and pulling new value streams and profit pulls along with it. Simply put, our value proposition is broader and more relevant to our customers and members than ever before.

We appreciate your interest in Walmart, and are now ready to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We'll now be conducting the question-and-answer session. [Operator Instructions] Our first question is from the line of Michael Lasser with UBS. Please proceed with your question.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Good morning. Thank you so much for taking my question. Can you frame or quantify how you have factored in things like the election and other distracting events into your guidance for 3Q and 4Q? And if you haven't seen an impact from these distractions as of yet, whereas many others who are serving the consumer have, why would you experience an impact from that as you move through the rest of the year? Thank you very much.

**John David Rainey**

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

Michael, this is John David. Good morning. Thanks for your question. Good thing about elections is they come along every four years and we get to have a lot of history with seeing the impact of that. As I noted in my prepared remarks, given the state of the economy, the election, state of affairs globally, there's reason to be appropriately measured in our outlook for the back half of the year, but effectively, nothing has changed for that period of time relative to what we thought at the beginning of the year.

Our business is executing very well. We're gaining share. We're seeing that our value proposition is resonating with customers. And so we feel good about what we can control and performance of the business. We'll continue to monitor what happens over the course of the coming months, and we think that we are positioned very well irrespective of whether we're in a more recessionary or more expansionary type period and some of the volatility that may result from that.

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

**Oliver Chen**

*Analyst, TD Cowen*

Hi. Thank you. In your remarks, you mentioned that you aren't experiencing a weaker consumer. What does your guidance assume in terms of your outlook on the consumer? And related to that is general merchandise flat performance was impressive given the trends and what we're seeing. What do you see happening within that category and will that momentum continue? Your guidance assume that stays flattish. And lastly, just on eCommerce, you continue to make really nice strides on the density and scale. What's ahead in terms of profitability drivers and how much more room there is for delivery density? I imagine that can just get better and better. Thank you.

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**John David Rainey**

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

Oliver, I'll try to address each of those questions real quickly. In terms of the outlook for the consumer, let me characterize this or give some context in the second quarter. So each of the months of the second quarter were relatively consistent. If you were to look at the pure comps for each month, July was actually slightly higher, but we think that that's largely a result of where the days of the week fell in the last month or last week of the month. So, we did not see a step-down, and our outlook for the back half of the year is really for more of a continuation of what we've seen. Even in the first couple weeks of August here, things have been remarkably consistent. So, I know everyone is looking for some piece of information that maybe indicates further weakness with our members and our customers, we're not seeing it. But we feel like we're, as I mentioned in my prior response, measured in our outlook and positioned well.

With respect to general merchandise, I'll make a couple comments and maybe John or Doug wants to jump in, but we like what we're seeing in general merchandise. First time in 11 quarters that we've seen positive inflection there. I think some of this is not so much what's happening broadly in the economy, but specific to our business. If you take our marketplace business as an example, there are many categories that grew over 20% in the quarter. As we're expanding our assortment, we're more relevant to customers, and I think that's driving some of what we're seeing in general merchandise.

Lastly, on eCommerce, I would say that, that continues to have an outsized contribution to our results. If you look at the second quarter and you were to parse out the various pieces of our business, for example, advertising, membership, fulfillment services. Core eCommerce, without the benefit of any of those, was the single largest contributor to our year-over-year operating income improvement. So, we really like the progress that we're making there. John may want to comment on some of what's happening in the US, but continue to make good progress there.

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**John R. Furner**

*President & Chief Executive Officer-Walmart U.S., Walmart, Inc.*

Hey, morning, Oliver. It's John. Thanks for the question. I'll just pick up a bit where John David left off. And first, really proud of the progress the team has made, Tom Ward and others, who have done a great job with eCommerce. The 22% result is impressive and we're proud of it.

The progress behind it – maybe we'll just start with customers, the thing that Doug mentioned in his earlier remarks about using GenAI for the catalog has been a great enabler over the last few months. It's about 100 times more productive to use GenAI versus having people work through each product display page. And that's really important in the context of the marketplace where we've had so much expansion in terms of the number of sellers and the number of assortment – the number of items in the assortment.

So, for customers, more and more, we are really feeling like Walmart can sell you anything that you want to search for. And for the sellers that are coming on, that's an exciting time because there is so much momentum in the business all around. So, the GenAI product that we're using has helped us populate the attributes and the characteristics of hundreds of millions of items and that would have taken, as I said, 100 times longer if we had tried to do that manually.

So, we're trying to really understand the intent a customer has in each session when they're on the site or in the store, then we're able to match the catalog to their intent in a much more effective way because the detail of each item on the product display page has gotten so much better. So, that's one example of using the latest technology that we can to try to improve customer experiences.

And so, customers, in many cases, start shopping in the store. We know there's much more value when a customer is shopping both in the store and in eCommerce. Third, when they join Walmart+, we see even more frequency.

And then, the last thing I would say is something that we said earlier about convenience. The number of customers who are enjoying the benefits of convenient on-demand deliveries, and when I say demand, I mean less than three hours. That has grown at a very high rate over the last few quarters in this last year.

And so, the flexibility that the team has been able to offer to customers, whether it's in the store, at the curb, delivery, or with plus, or in this on-demand channel, which is really fast, in many cases, it's less than an hour for the full store assortment across the country, has been great. So, we'll continue to lean into these areas, number one.

And then second, you mentioned density and frequency. We just recently expanded our delivery catchments to include about another 15 million homes across the country. And that's a result of the density and the business the team has built. And all those things added up are helping us with this core eCommerce profitability improvement that John David mentioned, which has been really helpful for the total P&L.

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**Chris Nicholas**

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

**A**

Yeah. And hey, Oliver, it's Chris Nicholas here from Sam's Club. Just to build on that answer from a Sam's Club point of view. Our incredible associates have done a great value for – a great job for our members, and our results are reflecting that. And if I think about how we've done that, digital engagement has been a really big part of it.

So, we take a look at the numbers, John David talked about some of them, but eCommerce is up 22%. That's delivery from club, that's delivery from fulfillment centers and that's pick up from club, and all three of those are resonating really well.

On top of the eCommerce piece, we have a digital engagement in club with our Scan & Go, up 190 basis points. Our Just Go frictionless exit that John David talked about is really resonating. I think last – when this went to print, it was 325. We're now at 380 clubs. So, feeling really good about that.

And what that does is it helps drive just a much deeper engagement with our members. They're spending more. They are more prone to renew, which we feel really good about. And it's worth mentioning and it's something we've talked about before that the Sam's Club eCommerce business is profitable and it's growing rapidly. So, we're feeling good about the mix, we're feeling good about the offer and it's across the membership base, too.

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**C. Douglas McMillon**

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

Oliver, this is Doug. One of the questions we used to get was, how do you feel about eCommerce as it relates to impulse sales? People walk into stores and clubs and they buy things that they didn't necessarily have on their list when they came in. Can you do that with eCommerce? And one of the interesting things that's happening with generative AI is the cross-category search is more effective, which serves up more general merchandise items and it helps drive eCommerce profitability, as you were asking about earlier. So, we're in this situation where we've got the best eCommerce food offer, and new tools are helping us connect impulse items that are general merchandise, in some cases, which helps us improve both sales and profitability.

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

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**Kate McShane**

*Analyst, Goldman Sachs & Co. LLC*

Hi. Good morning. Thanks for taking our question. Membership growth was noted as one of the drivers of operating income dollar growth during the quarter. And there did seem to be an acceleration from Q1 to Q2, especially at Sam's Club. I wondered if there was something meaningful that had changed from a quarterly standpoint or a sequential standpoint. And you flagged increased marketing as part of the reason that operating expenses deleveraged in the quarter. Did that have anything to do with some of the increased membership that we saw? Thank you.

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**Chris Nicholas**

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

Hey, Kate. Chris Nicholas here from Sam's Club first, and I'll just touch on the membership growth piece. We are seeing all-time high membership growth. We're seeing all-time high Plus penetration, too, so the health is really good. And we're also seeing growth across all income cohorts and all generations.

One of the really exciting things we're seeing is that 50% of the growth that we saw in the quarter was Gen Z and millennials. And that really talks to a really strong health for the future. We're getting people early in their lives and we see them continuing to be sticky.

The reason that it's working is we're focusing on all parts of our value proposition. So, we're focusing really hard on enhancing the core value proposition. We're focusing really hard on that deepening of digital engagement, and

Member's Mark is doing really well as well. And you saw that, in terms of transactions, our units were ahead of comps, too.

And what's good about that for a membership model is, the more engagement you have, the more frequently that they engage with you, the more prone they are to renew. So, just good quality health of the Sam's Club business drives more members in and drives that renewal rate up.

**John R. Furner***President & Chief Executive Officer-Walmart U.S., Walmart, Inc.*

And Kate, it's John. Good morning. Thanks for the question. Let me address the marketing question in addition to the comments Chris made about membership. If you step back, what we opened the call with is we know what customers are interested in around the world. And that there's a four things we talked about, value, assortment, experience and trust.

And while, of course, we have always focused on being a great value with everyday low price and we're driven to an everyday low cost culture to support everyday low price, so customers can always depend on us for the best value of our basket of goods, what's happened in the last couple years is really a rapid expansion in assortment. We've talked about that for the last few quarters on calls like these and other places. But as the assortment has expanded, our ability to show those items in a very high-quality way using new tools like generative AI and improving our search, has enabled us to understand better what customers are looking for by season, by session, by time of week. And it felt like it was the right time, given this increase in convenience in addition to pickup and delivery, so you can shop at the store, you can pick up on a schedule, you can deliver on a schedule, and then this acceleration of this convenience experience, felt like the right time that we need to be more bold about telling our story to our customers.

And so, starting late in the first quarter, we decided intentionally to increase our marketing investment to tell the story to our customers about all the things that we can do for them, which has led to what we feel good about are some really important early positive signs in general merchandise, including unit growth, which led to the results we talked about at the end of the quarter. But seeing things like marketplace, and specifically fashion within marketplace lead the way, is encouraging. So, this could be something that we continue over time. We'll learn as we go. We'll be very thoughtful about how we manage mix, how we manage expenses, and how we manage our costs across channels. But seeing customers respond to these new offers that we have in marketplace and with apparel, home, other categories, has been really exciting.

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

We still have lots of room to improve, but the progress we've made on eCommerce experience across businesses, across markets, puts us in a position where we can play more offense and be more aggressive as it relates to marketing. So, whether it's that or the capital investments in supply chain, what you're seeing is that we are playing offense.

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

**Rupesh Parikh***Analyst, Oppenheimer & Co., Inc.*

Good morning and thanks for taking my question. So I just want to go back to the momentum you're seeing in the health and wellness category. Just want to get a sense of how you guys are thinking about the sustainability of strength that you're seeing there, and anything outside of GLP-1 that's contributed to that momentum. And just from a gross margin perspective, as you look at stronger growth in grocery and within health and wellness, how is the product mix impact on gross margins playing out versus how you thought about for the year?

**John R. Furner***President & Chief Executive Officer-Walmart U.S., Walmart, Inc.*

Hey, Rupesh, it's John. I'll take that. So let me start with mix in general. In the quarter, as we noted, better results in general merchandise which is of course helpful. We have strength in food and consumables. We also talked about inflation really exiting the quarter roughly flat to slightly down in some areas. So, we're growing the business with higher transaction counts and higher unit growth which, of course, is encouraging.

Our merchants have a lot of experience over the last few years and the last few decades, maybe is the best way to say it, at managing mix in any kind of situation. So, yes, there is growth in health and wellness led by GLP-1s, but there's other growth in the category like supplements that we're proud of. This is the time of year as people go back to school, back to college you can lean into categories like over-the-counter supplements and we can do really well. But when you step back and look at the entire business, inventory is down 2% across the business. That's a decrease on top of a decrease last year and we're proud of the in-stock results that we have.

And so, our merchants have a number of levers they can use. First, of course, they want to be of great value to customers. We have 7,200 rollbacks. And then our merchants can mix across categories in many cases by taking a high margin item and taking a rollback on it, you can shift sales to items within a category to bring the category up, and you can do that while you have pressure in other places. So, at this point, we're managing the margin, we're managing mix. I don't have any concerns about our ability to do that at this point. We'll see growth, perhaps it's uneven in certain cases, that's always been the case, but we're in a good spot in terms of inventory, in stock, value, being ready for customers so that we can manage our mix.

**Operator:** Thank you. 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*

Good morning. Thanks, everyone. My question, it's on the spread between US EBIT growth and US comps or US net sales. It looks like the first half of the year, you're running 4-ish and change comps and you're doing EBIT growth of about 7% to 8%, so about a 3 or 4 point spread. My question is two parts. First, are there active decisions of reinvestment that we can do both, reinvest and grow? Curious how much reinvestment is happening. And second, that 3 to 4 point spread, is that representative of the businesses' run rate? Or is this still scaling, and then that spread should continue to widen going forward? Thank you.

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

Simeon, this is Doug. We are being thoughtful and deliberate about reinvestment, and we start out thinking about the customer first, what's the level above price investment, where are gaps, and as we've been saying for some time now, we're feeling comfortable with where our gaps are and we'll continue to support those as needed. And it is great to see prices come down. We are wired to help bring prices down, and we'll continue working to get more rollbacks to help customers and help members save money.

And the second thing we think about is our associates and where is our level of compensation when investments need to be made there. And you've seen now for years a string of different investments that we've made in our associates, whether that's hourly or management. We obviously think about shareholders all the time and it's not lost on me that our operating income percentage came down for a period of years as we made investments, and it feels good to have turned the corner on that and have a healthy business mix so that we can do both in parallel. So whether it's a one-year operating plan or it's a five-year plan, we're kind of in that season right now where we think about a five-year view. We're trying to be deliberate about reinvesting in the business so that the momentum continues and we don't find ourselves having managed the short term to the detriment of the long term.

**Operator:** Our next question is from the line of Christopher Horvers with JPMorgan. Please proceed with your question.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning, everybody. You talked about the US eCommerce business turning profitable, perhaps in the next one to two years. After 2Q, is there any refinement to that timeframe? And then related to that, in the first quarter you talked about I think total contribution \$300 million to \$400 million in alternative profit. Full growth that you saw in that first quarter, is that improving? And can you talk about how the arc of improvement trends as we look out into the future. Thank you.

**C. Douglas McMillon**

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

A

So, this is Doug. I'll go first and others can join in if they want. As it relates to eCommerce profitability, for some time now I've been trying to stress to everybody not to get too hung up on it. We've got a business with a lot of variables here and we're going to manage them all, and there are going to be new businesses that we invest in and in the short term don't make money but make money in the mid to long term. And at some point, we'll tell you that we've crossed a threshold and that eCommerce is profitable. We'll then talk about whether that includes advertising or doesn't include advertising. You heard John David say earlier we saw a lot of progress in core eCommerce during the quarter which is absent advertising, and we focus on that and we're seeing really great improvement there. And so, I'm encouraged by it.

But with Walmart, I wouldn't get hung up on one metric too much, whether it's advertising income or membership income or eCommerce profitability. Look at the omni total. We have a great and huge store and club business around the world that is profitable. We make money in food. We make money in consumables. We make money in general merchandise, and we'll eventually make money in eCommerce. And we're getting into that zone where it's going to cross a threshold and we'll talk about that at some point and we'll put that to bed and we'll be talking about something else.

**John David Rainey**

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

A

I'll just add, on the newer businesses, we continue to see great progress there in the quarter, just to maybe cherry pick a couple of them. If you took advertising and membership, those two alone accounted for over 50% of our operating income growth. And so, as Doug and others have alluded to, all these things work together. We've got to be really good at the core basics to have those work, but continue to be pleased with these faster growing, higher margin parts of our business that you all are seeing are changing the reflection in terms of how our financials look. Our margins are inflecting higher.

**Kathryn J. McLay***President & Chief Executive Officer-Walmart International, Walmart, Inc.*

Can I just add, too, like, as I look across the international business, there's so much balance across the markets, and we do have markets where we are e-comm profitable. We have channels where we're e-comm profitable, but what we see holistically is that with the value and convenience play, that is growing density, it's helping our fulfillment costs come down, and it's helping the overall profile. But it's just a very balanced result across markets as we're seeing that omni continuing to increase as a component of our business and seeing profitability mix really balance out.

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

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**Krisztina Katai***Analyst, Deutsche Bank Securities, Inc.*

Hi. Good morning and congrats on really strong results. I wanted to ask on the momentum in membership. You have done a lot to enhance the Walmart+ business. You added many new features, so one is, what have you found to be working best, not only in attracting but also retaining members? And second, can you update us on the uptake of the Walmart+ assist program, how you think about the sustainability of that growth as we think about the low income consumer taking advantage also of convenience and value? Thank you.

**John R. Furner***President & Chief Executive Officer-Walmart U.S., Walmart, Inc.*

Hey, Krisztina. Good morning. It's John. Happy to address the question. Of course, I'd say we're proud of the progress in Walmart+. The team is working really hard on ensuring that, number one, the offer is built in such a way that it's very relevant to our customers all across the country. The core of the offer, of course, is delivery without cost from either the fulfillment centers or stores. And our ability to attract people starts with the offer. Our ability to retain people ends with how well we execute that proposition. So, we spend a lot of time and energy. We start every week going through all the metrics on how we did on the week before, the month before, the quarter before, and then building roadmaps to ensure that any friction that we are putting in front of customers, we're doing everything we can to try to eliminate that.

We know that when we deliver what we call a perfect order, which is part of our overall customer experience score, that the likelihood of repeat and renewal goes up significantly. So, we focus a lot on ensuring that customers get what they ordered, when they ordered it, with only appropriate substitutions when those are absolutely necessary and those are all helping.

In terms of assist and other things, we have a membership program that should and is, we believe, very applicable for customers at all income brackets. We have members who are delivering very frequently, who are below \$50,000 a year in income, and we have members who are delivering frequently and growing above \$100,000. And so, this flexibility is super important. And as I said earlier, when a customer moves from just shopping in the store to stores and eCommerce, or stores and eCommerce, and they become plus, and then within plus, they use what described earlier as on-demand, sub-three-hour delivery, we really see spend rates and the amount of time and energy, money people are spending with us, go up significantly.

So, it's about the entire journey. And as Doug said earlier, I wouldn't weigh too heavy on one metric in particular. Walmart+ is an important part of our program. It's not the only thing we do, we do a lot of other things. But for the

people that join, we want to make sure that we deliver the very best experience that we possibly can that's within our control.

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**Operator:** Thank you. Our next question is from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

**Chuck Grom**

*Analyst, Gordon Haskett Research Advisors*

Thanks. Good morning. Great results. On automation, where are we on that journey today? And how much of the benefits are we seeing in the P&L over the past couple of quarters versus what you expect to flow through over the next several years? And then separately, August comps sound solid. Any early thoughts on back to school, back to college? Thank you.

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**John R. Furner**

*President & Chief Executive Officer-Walmart U.S., Walmart, Inc.*

Hey, Chuck. It's John. I'll take that first and I'll start with automation and talk about back to school for a second. As you know, we have a number of facilities and a number of types of facilities around the country that we are automating in the supply chain. We have our regional distribution network, which is primarily an ambient network. Progress there is right where we planned it to be, continue to be pleased with the progress of our provider in the space. And by the end of the year, roughly, we should see about 3,000 stores of the 4,600 having deliveries from automated facilities in some way. So the progress is good.

The ability of a – for a store to get a load in that is palletized, it's by aisle, and as we build more density in these centers, not only is it by aisle, in many cases, it's by section. When an associate needs to stock a pallet, is so helpful. I mean, I remember working in stores years ago and it was a bit of a treasure hunt to try to find the items you needed, the cases you needed. But not only our automation but then the in-store technology to help us locate what we own and know where it is, makes it much easier for our associates to access inventory and get those things in front of people.

The second type of automation, of course, is perishables. That's a network that we're pretty new in, that we have about three facilities that are under way. And then, our fulfillment center network is probably the farthest along with the highest percentage of buildings that have converted. And we're really pleased with the accuracy, the number of steps it takes an associate to run inventory through, and our variable cost per unit that's showing significant improvement in those centers.

The last part of your question, back to school. It started off strong this last couple weeks. I've been and a number of our operators have been in stores all over the country where we're looking at how ready they are for back to college and back to school. About 50% of our customers still say they have a lot of shopping left to do. We have over 2 million school lists uploaded on the site. So we still have a lot of trading ahead of us. So a good start.

We have to continue to execute really well, clean up, come out of the season strong so that then we can move to the next holiday, which will be Labor Day. We take all of these one at a time, we focus on what we can control, we execute, we clean our inventory up and then we move forward. So, good start, but a lot of trading left to do.

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

**Corey Tarlowe***Analyst, Jefferies LLC*

Great. Thank you and good morning. So, Doug, a couple quarters ago, you had mentioned to us that deflation could be a real possibility. And now in the prepared remarks today, I think for the quarter, both Walmart US and Sam's Club you mentioned were slightly deflationary overall. So, I'm wondering, what do you think this means for the trajectory for pricing as we look ahead. And what does it mean for your price gaps?

And then, additionally, how do you think private label plays into this? As – I think we've continued to see those price gaps widen as well and that also is continuing to increase in terms of penetration in the business. So how do you see that adoption unfolding in the midst of, in the broader context, of pricing potentially being slightly deflationary?

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

Yeah, Corey, first, I would say we want to sell brands. It's important to Walmart to sell brands and show a value. And so we're hoping that our branded suppliers do the right things with both quality and price to get to the value that our customers want to see. I would guess that private brand continues to grow, although it'd be okay with us if the percent of total leveled out for the reason that I just mentioned.

Our teams are doing a better job with private brand as it relates to both the development of the product, the quality of it and the value. So that's good and helpful for customers and we'll keep doing that.

Looking ahead, from a pricing point of view, fresh food is behaving like it does, supply and demand moves faster and things adjust, whether it's the proteins or it's fruit and vegetable. General merchandise has come down. My guess is it doesn't come down a whole lot more, but it's great that the prices are down and that rollbacks are being reflected.

In dry grocery, processed food consumables are where inflation has been more stubborn. And as we mentioned, we still have slight inflation even in last quarter in the food categories. So, I'm hoping that what we see from our branded suppliers is investment in price, and we're seeing that from some of them and not others. We have less upward pressure, but there are some that are still talking about cost increases, and we're fighting back on that aggressively, because we think prices need to come down.

So, I don't forecast that we're going to see a lot of deflation in our number looking ahead. It probably levels out about somewhere near where we are, with the mix being reflected as I just described.

**Operator:** Thank you. Our next question is from the line of Paul Lejuez with Citigroup. Please proceed with your question.

**Paul Lejuez***Analyst, Citigroup Global Markets, Inc.*

Hey. Thank you, guys. Following the gross margin expansion in the first half, how are you thinking about gross margin in the second half? Which drivers of the first half margin expansion stay the same, which fall off? And are there any new drivers of gross margin that we might see pop up in the second half? And then, maybe related to that, what are your expectations for the competitive landscape relative to what you've seen the past several months? Thanks.

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

Paul, John David will respond to the gross margin question, but I just want to jump out in the front part of that and say, we're not raising prices, we're lowering prices. But we don't want product margins to go up. When we talk about margin improvement, in our company, it's business mix, mix of geographies. It is not that we are increasing product margins.

**John David Rainey***Chief Financial Officer & Executive Vice President, Walmart, Inc.***A**

I'd just add to that, Paul, that if you look at some of the drivers of the gross margin improvement, as Doug noted, business mix drives a large part of that. We've also seen an improvement, as I mentioned earlier, in just core eCommerce losses.

Within the core merchandise mix, we had a little bit of benefit from improved shrink in the quarter similar to what we saw last quarter as well, as we were at higher levels last year. But as Doug noted, we're advocating for our customers. We want to drive everyday low prices and we're not intending to achieve any of our margin performance by passing this along to our customers and members in the form of higher prices.

**Kathryn J. McLay***President & Chief Executive Officer-Walmart International, Walmart, Inc.***A**

I'd probably just call out, too. We had talked in – we had a really strong op inc result in Q1, and we've called out that Q2 would moderate. It did, but it's still a really strong result into Q2. But one of the things that I'm finding in international is that there is a significant amount of impact from events, and we will have BBD in the back half which does change the profit profile of the back half. But we're still really optimistic and bullish about the results we're driving in international. It's just recognizing that those big events do kind of have a disproportionate kind of impact on the ratios between top line and bottom line.

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

What does BBD stand for?

**Kathryn J. McLay***President & Chief Executive Officer-Walmart International, Walmart, Inc.***A**

BBD is big billion days, which is a really big sales driving event in India that happens around Q3, Q4.

**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**

Hi. Good morning, thanks for taking our question. Was curious, you talk a lot about the share gains by income cohorts and how that's primarily driven by upper income households, but would you be willing to kind of give color on comps by income cohorts? And I think a lot of investors are just really curious if you are growing comps with low income households or how much of comps are being driven by that upper income. And maybe if you can tie in any color between grocery spend and general merchandise by cohort, is it really that upper income cohort that's starting to turn the needle here on general merchandise? Any color there I think would be helpful.

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

Kelly, this is Doug. I'll go first. And if anybody wants to add, they can. I don't know that we can add a whole lot more color except to say that value matters to everyone, whether you're above or below \$100,000 in income. We do see behavior differences in the lower income levels, more focused on opening price points, end of month behavior looks different, all the things that you would expect, but they still need us for general merchandise price points. And as it relates to higher income people, they can buy more discretionary goods and they can pay more for convenience and we're offering all of it. So, I think our future looks like it's got a spread across income levels that's different than our past because of convenience. I think the Walmart+ membership, delivery, the things we're doing with remodels, John, in the US stores, I think all these things are coming together to give us a shot at continuing to have growth with higher income levels regardless of what happens in the economy.

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**Operator:** Thank you. The next question is from the line of Robbie Ohmes with Bank of America. Please proceed with your question.

**Q****Robert F. Ohmes***Analyst, BofA Securities, Inc.*

Oh, hey. Thanks for squeezing me in. I just was wondering from the team, with the back half guidance, I'd be curious to get your thoughts on what kind of holiday Walmart is planning for this year in the US and even globally.

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

It's going to be great, Robbie. We're all smiling at each other. I mean you guys know what we know about the volatility of the environment and all the things that are in front of us. But, the good news is, we have a long history of dealing with volatility and surprises of all forms, especially in more recent years. It is nice that the early days of back to school went well. Sometimes, most times, I guess, that does give some indication as to how Halloween and Christmas will go. We bought increases and we're playing offense, so we're expecting to have a good holiday and we look forward to serving our customers and members, too, all the holidays around the world.

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**Operator:** Thank you. At this time, we've reached the end of our question-and-answer session. I'll turn the call over to Doug McMillon for closing remarks.

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

Yeah. As always, thanks for your time and attention. We're feeling pretty good about where we are. We believe we're making real progress, not only as it relates to saving people money, but growing our assortment, through both first party and third party, and importantly, saving people time. And regardless of your income level, you need to and you want to save time and convenience is a big deal and we're improving that part of our experience. The team is driving results right now. The unit growth, market share growth, pricing improvement, really good inventory management is great to see. And it's also great to see ROI up 230 basis points in the quarter. At the same time the team is doing a great job driving short-term results, we're building for tomorrow. And the eCommerce growth is strong. That includes the marketplace business which helps pull through things like membership and advertising and fulfillment services, resulting in that new business model.

And I'm also really excited about international as it relates to building for tomorrow. We're in a great position in the right markets. And this business is more than a domestic business, it's got global leverage, global benefits, and

Kath and the team are figuring out ways to help make that be true across markets where they see benefits by being part of Walmart and 8% operating income growth for the quarter was really good. So, we're trying to do a good job of both managing the short term and building for the long term at the same time, and I think that's what we're seeing happen and I'm just really grateful to the team. Thank you, all.

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

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