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# Walmart, Inc. (WMT)

Investor Meeting

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## MANAGEMENT DISCUSSION SECTION

### Stephanie Schiller Wissink

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

Good morning, everyone. I'm Steph Wissink, Senior Vice President of Investor Relations at Walmart, and as many of you know, it's a custom to start meetings at Walmart with the Walmart cheers. So, thank you for joining in on that this morning.

Today, we've got quite the agenda planned for you. We have a set of presentations that will be followed by store and club tours. Today's presentations are being recorded, and the information presented and the statements made may include forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include, but are not limited to, the factors identified in our filings with the SEC. Please refer to 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](http://stock.walmart.com).

Doug, over to you.

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### C. Douglas McMillon

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

Good morning. I was wanting to speed those robots up. That cheer was a little slow. Good morning and thanks for being here again. Thanks for yesterday and last night. It was fantastic.

As I mentioned yesterday, the three headlines to take away from our meeting today are, first, growth. We'll continue to grow, because we can serve customers and members however they want to shop, omni-channel is the winning approach. We have a unique position and opportunity, given our capabilities and proximity to customers. Second, margin, we'll improve our operating margin through a combination of productivity improvement and our mix of businesses. And third, return, we'll improve our return on investment through that operating margin improvement and by being disciplined with capital.

I'll use the description of Walmart that I shared last night to talk about all three points. Let me start with our people. Nothing happens that isn't accomplished by our associates. Today's Walmart is about 2.1 million people. We're united by our purposes, values, and culture. We're running stores, clubs, and eCommerce businesses in 20 countries. We have sourcing associates living in an additional 13 countries, and we're leveraging skillsets and insight from all over the world. We have a broad and diverse team that brings a variety of expertise. It starts with our associates at the frontline, serving customers and members in our stores, clubs, supply chain, and technology areas.

As you know, we've made important investments in their wages, benefits, and incentives, as well as their educational opportunities over the years. Big picture, our reward system is designed to create a ladder of opportunity. We want to build careers, not just jobs. Retail jobs have always had higher turnover than in most industries and that's still true. And if someone wants to join us temporarily, as many did during the pandemic, that's okay, but our goal is to keep and develop people. In the US, about 75% of our store, club, and supply chain management started in their careers as hourly associates.

We invest in more than just wages. Healthcare coverage for US associates starts at \$33 per pay period. We provide up to \$20,000 in support for adoption and/or surrogacy. A birth mom receives up to 22 weeks of paid leave. As it relates to education opportunities, in addition to our own internal academies, Live Better U enables our associates to choose from 75 programs in areas like business management and data analytics from 25 education providers, including Purdue University, Morehouse College, and Oregon State University. 105,000 of our associates have taken advantage of that since 2018. We pay for 100% of the tuition, books, fees and taxes, and associates have saved an estimated \$333 million in tuition costs.

We believe our combination of wages and benefits have us well positioned to achieve our growth and profitability objectives. We'll adjust as the market changes, but our current position, including our investment in education, have us in the right range. We have all kinds of jobs. We have over 25,000 technology associates. We have a large number of data scientists, product managers, and designers shaping our customer and member experience. 46% of our global management team and 36% of our global officers are women, 29% of our US officers are people of color, and we're leveraging talent from all over the world. Our Country President in Canada grew up in Argentina. Our leader in Mexico is Brazilian. And you may notice this morning that our team brings with them experience from all over the globe. We've got a strong, deep, and diverse leadership team.

Being people-led is about purpose, values, culture, opportunity, and belonging. It's our people that make the difference. Our culture, our humanity is what differentiates us. Since we covered technology last night, let's jump to being an omni-channel retailer, and I'm going to spend a bit of time here. The whole statement is about service to our customers and members. We don't exist if we don't serve them well. Across our markets, they can come to a physical store such as a supercenter, a neighborhood market, or a discount hyper like Bodega Aurrera or Sam's Club. They can take their phone and shop anywhere, anytime they want. They can pick up an order or they can have it delivered. In some markets, they can have it delivered all the way into their refrigerator. We've now scaled those capabilities and are well positioned for future growth.

As it relates to our objective of sustained growth of 4% in our retained markets, we've grown revenue at 6% these past five years and 8% over the last three years as recent tailwinds kicked that number up. In the three years before the pandemic, we grew between 3.1% and 3.6%. We know there'll be variance from quarter-to-quarter and year-to-year, but regardless of the headwinds and tailwinds, we believe we're now positioned as a total company to grow at about 4% over time going forward. That growth will be enabled by our strength in physical retail and our expanding digital relationship, fueled by pickup and delivery. We'll build on that digital relationship with our first- and third-party eCommerce assortment and general merchandise in particular.

We're leveraging our advantages while strengthening our position where we have room to win market share in areas like eCommerce, apparel, and hardlines. We'll do that by growing our assortment, improving our app design, and focusing on customer and member NPS. We're now in a phase that is less about scaling store pickup and delivery, eCommerce assortment, and eCommerce FC square footage and more about execution and operating margin improvement. Sorting out which part of an order comes from a store or club, which part comes from an FC and how they work together to enable a delightful customer experience requires a supply chain that is connected from a data and software point of view. John illustrated this yesterday afternoon and you saw a piece of it in the DC. We're now able to fulfill customer needs with a flexible, connected, omni-channel network enabled by data.

Membership is the customers' preferred way to pay for delivery and it creates a lot of opportunity for us. It deepens engagement, helps enable personalization, and enables us to offer more services to our members. Bringing this all together to unlock a new phase of growth requires putting the customer and member first, and then working backwards to optimize the math, the financials. We're doing this today and we see the

improvements in efficiency and margin. We see the opportunity to accelerate that progress with investments in supply chain automation, which includes data, software, and robotics, will improve item location, item location accuracy, in-stock levels, unit economic costs, and delivery speed.

The combination of sales growth, productivity improvements, and business mix changes will enable us to grow profitability faster than sales. eCommerce starts with an owned inventory first-party assortment. Our contribution profit in first-party eCommerce merchandise calculated as gross profit less variable cost has been improving due to mix, with apparel and home being a larger percentage of the total. The addition of third-party assortment through the marketplace increases selection for customers and strengthens our business model. The combination of marketplace fees, advertising income, fulfillment services, and data monetization diversifies our income streams and helps us drive incremental profit growth.

Combine our physical footprint from stores, clubs, and our supply chain with new services and better technology, and you get the leading omni-channel retailer globally. More than ever, we're taking advantage of benefits across segments as a total company in the areas of talent, knowledge transfer, enterprise services like sourcing and technology, including back office software solutions. This is not just a US brick-and-mortar business. We built a set of mutually reinforcing businesses that drive growth and engagement from customers and members.

Our five-year plan calls for us to grow profitability faster than sales. We know where our price gaps need to be and we'll manage them as we grow profit faster than sales through productivity and business mix. As it relates to capital investments, it's exciting that we have so many places to invest in our business and earn a strong return. Around the world, we'll invest in remodels and we'll open some new stores and clubs here in the US as we've continued to do internationally, in particular across Mexico and Central America. We'll build out our last mile fleet of vehicles here in the US and we'll leverage our Spark Driver delivery platform.

The bigger and newer news, the supply chain automation investments have attractive returns individually and in total. Think of these as automated storage and retrieval systems in four forms. There's one type in partner for our ambient centers like you saw yesterday, there's one for perishable food, there's one for eCommerce FCs, and there's one for market fulfillment centers or MFCs. Please come and join us in Bentonville in June for shareholders, and we'll show you an MFC and share our latest thinking on store remodels.

As it relates to the automated storage and retrieval systems, we've taken enough time to prove them out. It wasn't easy. Teams of engineers and operators put in years of work on the software, kept continuously improving the hardware, and assembled new and existing datasets to make it all happen, and we're getting faster at converting. The first DC took about 12 months to complete. The most recent, one six months. We'll keep improving in all those ways and we'll keep making those assets meet or beat our financial and operational expectations as we grow. This isn't a leap of faith. It's a methodical building of our next generation supply chain. All of it comes together to help us deliver our purpose. We're dedicated to helping people save money and live better. Our strategy is simple. It's to bring this purpose to life for our customers and members.

We're convinced that value, consistent everyday low prices earn trust. Customers don't have to worry that they'll see a lower price on an item they purchased the next day or the next week. We aren't playing a game with them. And at the same time, by reducing the volatility of high, low sales activity, we avoid promotional markdowns, and extra labor and other costs that come along with inventory surges. We enable our merchants and suppliers to focus their energy on innovation that will result in better prices and better products for our customers and members. They can spend time on availability, new items, improved packaging, more sustainable products, rather than on advertising markdowns and moving sale inventory around the store. It's a trust-building, everyday low-cost approach.

The combination of stores and clubs with pickup and delivery enables us to save people more time. The shopping experience, especially as it relates to convenience, is how we've driven so much growth in recent years. And as we learn how to save people even more time, it will propel our growth in the future. We're encouraged that our recent survey results show a strong score on price and an improved score on convenience that's almost as high as our score for value. When it comes to our opportunity to serve with healthcare, we'll build on our pharmacy, OTC, optical, and hearing businesses along with the Walmart Health Centers, where we're learning the right set of services.

With Financial Services, we've offered products to customers for many years, and we're excited about the opportunity across markets to digitize those and provide the right suite of services at their fingertips. Our primary focus is and will always be on retail. We're merchants, but we've grown large in successful service businesses over the years and they're complementary. In summary, we'll grow our top line, improve our margin, and improve our return on investment. That's reflected in our five-year plan. We think growing a company of this size in the 4% range over time, and growing profit faster than sales is achievable and that's what we're setting out to do. The strategy we've been working on for years has put us into a position to see more benefits for shareholders. We're really excited about it and feel blessed to be part of this company.

Thank you for your time. Please welcome John David.

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## John David Rainey

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

Thanks, Doug. Good morning. Doug has given you a sense of our ambition to shape and lead the future of scaled omni-channel retail. Now, I'm going to share with you how that translates into our financial objectives and our investment priorities. We have the building blocks in place to define the next chapter of retail and expect to do so while driving strong growth and shareholder returns. As you experienced yesterday at our DC and you'll experience later today in our stores, we're investing in ways that strengthen our existing business, our people, and our unparalleled network of stores, clubs, and fulfillment centers, but we're also investing in our future growth, our eCommerce platform, and the high value initiatives that are made possible because of it. Together, these create an unrivaled global retail ecosystem that has significant competitive advantages and we believe will drive improved margins and cash flows.

Let's start by looking back. Over the last five years, the business has delivered 6% sales growth and 3% operating income growth. And at our last Investor Day in February of 2021, we outlined a plan to achieve 4% sales growth on average with greater than 4% operating income growth. Since that time, our compounded annual growth in sales and operating income has been 8.2% and 4.8%, respectively. Higher inflation, as Doug noted, has been a partial driver of our top line, while at the same time, pressuring the mix of our business, putting pressure on the bottom line.

What's not obvious though in this delta between sales and operating income over the last five years is the intentional reinvestment in critical areas of our business. These were investments to strengthen our competitive position. To help quantify this, roughly one-third of this gap can be explained by our investments in eCommerce and technologies that are now powering growth in our omni-channel ecosystem. The remaining two-thirds of the delta reflects investments in wages to support our people and prices to solidify our EDLP approach, linking directly to our position of being people-led and our purpose to help customers save money on everyday essentials.

Retail has changed a lot in the last 5 to 10 years, and the change over the next 5 to 10 years is likely to be just as significant. Customers are demonstrating preference for multichannel offerings, convenience, value and selection, and up to this point, for most, it's proving challenging to provide all of these things at attractive economics. What's important to understand is this, the investments we've made in people, price, eCommerce, and the high value technology capabilities are why we are at an inflection point today. The benefit of any technology platform is being able to scale it at a lower marginal cost.

The investments in our supply chain, coupled with the retail ecosystem that we've created, are what we believe will allow us to realize more attractive returns through operating and fixed cost leverage. When we reflect on where we are today, we believe that approximately 4% sales growth and growing operating income at a faster rate are still the appropriate targets for us for the next three to five years. The investments we've made have positioned us well and stand to generate steady and sustained growth at higher margins. In fact, we think the opportunity for operating income growth over the next three to five years could be better than what we've outlined.

Looking ahead, the building blocks of our financial model are to drive organic sales growth through our omnichannel business model, diversify our earnings streams through improved category and business mix, and scale proven, high return investments that drive operating leverage and improve incremental margins. Underlying our financial targets is a disciplined approach to capital allocation, which includes growing our dividend, opportunistic share repurchases, and investment in our supply chain and automation, providing improved unit economics.

So, let's start with sales growth. Our omnichannel model is resonating with customers seeking out Walmart online and in stores, curbside and via delivery. And we're growing mindshare for our convenience, which nearly matches our mindshare for price and appeals to customers regardless of their income level. Our primary growth goal in all of our markets is to drive first place wallet share across categories. Our multiyear growth outlook assumes that all three business segments contribute to enterprise growth. Walmart U.S. is building an ecosystem of value around its core, which is just getting stronger. Sam's has great momentum and we expect sustained mid-single-digit growth from new clubs and membership growth. And our International segment is positioned to grow at an even faster rate with enterprise growing – in the enterprise with high-single-digit compounded growth with all major markets contributing, most notably Mexico and India.

Next is category mix. We've made significant progress in our food and consumables business, consistently growing our share and deepening customer trust. We want to do the same thing with general merchandise by investing in our in-store and online experience. While inflation is still an issue and category mix pressures are expected to persist this year, we're focused on improving shopability, curation and clarity across choice-intensive areas such as apparel and home, and more tightly connecting our stores and online experiences.

We think that we're set up to win more share of general merchandise demand as category mix normalizes. Our global merchandise strategy reflects a combination of first-party and third-party items, and we view marketplace as a key driver across our markets. To grow our marketplace business, we're focused on high quality items and sellers, monetizing fulfillment services, and activating sellers to use our advertising platform. Our marketplace experience for both sellers and shoppers is earning us a position of being more desirable for many more brands, and you'll hear more about that from John and Judith today.

The next driver of our financial objectives is business mix. Many of the efforts to change our business mix were underway pre-pandemic, but the effects of COVID cost and supply chain disruptions and inflation this year have clouded the ability to see our progress. But these underlying drivers of business mix are graduating from cost to benefit, with accelerated paybacks, supporting our view of faster profit growth going forward. I'll unpack these business mix drivers a bit further, starting with our store network.

We're investing in our stores and clubs. For Walmart U.S., I hope many of you have had a chance to visit a remodeled Walmart Supercenter to see the enhancements we've made to the shopping experience. Our customers are telling us they want more value and more inspiration more often across channels. We want to evolve our position among consumer mindshare from utilities or think price and convenience to engagement and loyalty. Sam's Club has grown 43% over the last three years. Our clubs have been refreshed and modernized, and you'll see this today as you walk through a nearby club.

Sam's is an item business and our merchants continue to strengthen the offering across categories. Based on momentum, we're seeing significantly stronger club volumes, and rising awareness and preference, especially among Gen Z and Millennials. This gives us confidence as we look at opening 30 new clubs in the years ahead. And our investments in our International portfolio will continue to be concentrated in areas of outsized growth. Walmax continues to deliver steady gains based upon a portfolio of distinct formats and expanded services. India represents a significant growth opportunity with strong demographics and we have a uniquely local approach to each.

China is more digital today than any other market where we operate and it gives us direct insight into how markets like the US could look in future years. Each market plays a critical role in the reshaped portfolio, and we're excited by the growth prospects for the International segment. But today, there is a blurring between the physical and the digital worlds. This plays to our advantage. We fully believe the future of retail is omni, and we like our position with more than 10,500 stores and unmatched proximity to customers in our major omni-channel markets. When we talk about last mile at Walmart U.S., we really mean it. 90% of the US population lives within a 10-mile drive of one of our 4,700 stores. Said differently, delivery drivers need to only drive 10 miles or less to reach 90% of the US population.

Today, in our Walmart store, you'll see how we're activating pickup and delivery at scale, emphasizing customer experience and deepening loyalty. As evidence of this, our pickup and delivery business has grown at an over 40% compounded growth rate over the last three years. And last year, we executed more than 200 million curbside pickups and fulfilled more than 600 million online orders. Across our US network, online pickup and delivery customers shop more frequently across all channels, including in-store, and they spend \$1,000 more per year with Walmart than a traditional customer, and online pickup and delivery is proving to be a key source of signups for Walmart+, with nearly 50% of members coming from this channel.

We pursued an aggressive digital growth strategy over the last five years, eComm now accounts for \$82 billion or 14% of our net sales, and this compares to \$25 billion or 5% just five years ago. And the run rate in monthly volume – recent monthly volume is even higher, growing year-over-year in the high-teens, putting us on a path to reach \$100 billion in the very near-term. Importantly, we are already seeing a directional change in our digital margins as we leverage our stores to fulfill, activate local delivery networks, and scale up high margin value streams such as advertising, data, memberships, and marketplace.

What's important to understand about this business is that we don't have to squint our eyes or cross our fingers to imagine profitability in this channel. In Walmart U.S. today, we have a positive contribution profit in our eComm business and we expect nearly 200 basis points of additional improvement in the coming year as a result of the investments that we've made. Sam's has a profitable eComm business today and Flipkart has a positive contribution margin, which continues to expand, supported by a healthy category mix in their fast growing ads business. And in China, where we have a roughly 50% eComm penetration, predominantly fulfilled from stores and clubs, we already have a profitable eComm business. By incorporating omni strategies and our connected



ecosystem of value drivers, we see the potential to have enterprise level eCommerce profitability in the next few years.

I talked earlier about the investments we've made that have helped us with profit. These investments have funded and are now scaling a portfolio of highly attractive growth initiatives that reinforce our core retail model and will directly reshape eCommerce and enterprise profit trajectory. This set of initiatives drives stronger returns and includes sophisticated advertising gateways, insight-rich data portals for both suppliers and sellers, and next-gen loyalty and membership pillars for customers in many markets.

We've made choices to orient our focus towards growth initiatives with higher structural margins and higher sustained returns that also fortify our core. This group of high value initiatives, high margin initiatives is advancing from startup to scale, and seeing meaningful increases in contribution margins. Collectively, these initiatives generate margins that are appreciably higher than our existing business, and we expect to begin will positively influence operating profit growth relative to sales this year and accelerate in future years. To this point, we've talked about how our investments are reshaping our profit outlook. You might be asking, what about reinvestment in people and price.

We are a people-led business and we fully believe in a future where people are at the center of how we differentiate our value proposition. We're winning customer mindshare for price and convenience, and we aspire to win for service and experience as well. Retaining talent and establishing career opportunities for our associates remains a central objective for our growth ambitions. We believe over time, the number of associates will grow, but at a slower pace than in the past, as we complement people growth with technology and automation. We're confident we can make the investments needed to remain competitive in a tight labor market while also growing our profitability. As people are paired with technologies that improve their efficiency and productivity, we realized improved unit economics and more satisfied associates.

On price, we've invested on price to reinforce our EDLP position. We will continue to advocate for customers and reduce prices when possible. We're comfortable with our current price gaps to the market. It's something we monitor very closely and we're confident in our ability to win share by maintaining the price gaps we've established. Customers across income cohorts and especially Gen Z and Millennials are increasingly choosing to purchase quality, affordable brands that we own, including Member's Mark at Sam's and Great Value at Walmart. Private brands, private brands now account for more than 20% of our sales at Walmart and over 30% at Sam's Club. And at Walmax, private brand penetration reached 15% last year. Where in departments such as home, private brands are growing 4.5 times faster than branded products.

Now, let's change our focus for a second. Let's talk about capital. We previously stated that we expect our CapEx to be at 2.5% to 3% of sales, and this year's CapEx to be flat to slightly up from last year, which would be at the upper end of that range. That is still the right way to think about our business over the next few years. This is what I want you to understand. We view capital allocation as every dollar having to compete for the best return, and we view our capital expenditures through the lens of return on investment. The investments we've made over the last few years in things like store-level technologies and supply chain automation are yielding returns in excess of what we originally contemplated.

Further scaling precisely these types of investments is what will allow us to realize a profit inflection. In the next five years, nearly 90% of our CapEx will be in these high return areas, like eComm, supply chain, and store investments. Our capital structure and our cash flow generation are a competitive advantage, and we're allocating capital responsibly with a bias towards organic growth and improving margins. We're going to be very return

focused. We want our return on investment to go up every year, and we believe in our planning horizon that can meaningfully improve.

Underpinning these growth drivers is a focus on improving unit economics. As you observed yesterday, we're building a scaled system of supply chain capabilities that requires a combination of data, software, and robotics. The investments in automation are already far exceeding our productivity targets, in some cases 30% better, as we're able to better flow inventory at lower cost with less manual labor. By the end of fiscal year 2026 or in three years, we expect that approximately 65% of our stores will be serviced by automation and we estimate approximately 55% of our fulfillment center volume will move through automated facilities, and unit cost averages could improve by approximately 20%.

Importantly, as you'll see during the store visit today, this automation has been designed with a human-centered view, improving how merchandise arrives at stores. Our targeted 4% compounded growth implies that over the next five years, we'll add more than \$130 billion of sales on top of our \$600 billion base today. Automation enables us to improve our throughput at lower cost and to change how our associates work in new and better ways. Most notably, it allows us to reallocate labor hours closer to the customer to improve both the customer and associate experience.

Let me take a moment to translate these objectives and the simple financial outcomes. Core sales growth, measurable business mix shift, and a lower SG&A ratio will be the key sources of profit advancement over the next several years. We expect to achieve sales growth in the mid-term in the 4% range. In some years, it may be more. In others, it may be less. But on average, we expect it to be around 4%. We're improving our category mix and expect gross margins to meet or exceed prior peak as economic recovery in future year supports a more normalized category mix and automation drives efficiencies and improving unit economics. We expect the benefits to business mix to be most notable in the pace of gross profit improvement and a level of operating leverage. Many of the fixed costs needed to execute our higher margin streams are in place and our marginal cost to grow is lower. I've given you a lot to think about today.

To summarize, we like our position. We like our position because we see revenue growth across a diversified set of drivers, improved category mix and increasingly accretive business mix coupled with improved unit economics. This is all fueled by supply chain investments with attractive payback cycles.

We expect operating income to grow faster than sales. But as you've heard, we have drivers that could push that growth to levels twice that. Our management team is motivated and incentivized to execute, and we're focusing on fewer, more concentrated initiatives that reinforce our competitive advantages and can change the profit trajectory of our company.

Now, we'll bring up our segment leaders to connect our vision and financial objectives to their strategies and priorities. Kath Mclay, CEO of Sam's Club, will start followed by Judith McKenna, CEO of Walmart International, and John Furner, CEO of Walmart U.S. will close the session. Then we'll all be back up to take your questions. Thank you. Kath?

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## **Kathryn J. Mclay**

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

Well, good morning. I'm excited to share with you today a little bit about Sam's. I don't know that in my entire career I've ever had such a compelling story to share. So it's a great opportunity to kind of unpack what's been happening at Sam's that's been driving this growth. You know, this Friday, it's our 40th birthday and this last

chapter has been a real chapter on growth. On April 7, 1983, Sam Walton opened our first club in Midwest City, Oklahoma. And we have come such a long way since then.

In FY 2023, Sam's Club US had a record sales of \$84 billion across 600 clubs in the US and Puerto Rico and online. As John David said, over the just past three years, our net sales have increased 43% and we've been on this streak of 12 consecutive quarters of double digit comp growth. We continue to set record highs for membership with strong renewals, including our tenured renewal rate, which is in the low 90s which is in line with industry standard. Our membership has grown nearly 30% over the past three years and we're attracting an unprecedented number of Millennials and Gen Zs.

We've actually added so many members, it's like we've added clubs without actually having to build the physical clubs and we've grown channel share without expanding our physical footprint. So as we turn 40, Sam's Club is growing and we're doing it with the attention to detail of an experienced retailer. We are clear on our value proposition and we're disciplined in the way that we execute it. Over the last few years, we've invested in wages, prices and our fleet standards. Every week, key leaders meet together in our trade meeting and analyze the important basics of our business like club standards. Right down to the gloss on the floor of each club price leadership, including our daily basket of 150 items directly comparable to our competition. Membership feedback on products that they love as well as ones that they don't, and convenience on indicators such as NPS and metric performance on delivery speed and completeness of orders. You see, when you get the details right, the growth follows.

So looking back at FY 2023, we entered the year with momentum and we didn't slow down. Sam's Club delivered strong results with comp sales up nearly 11%. We saw strength in both transaction and ticket and e-commerce performed well, up 22%. And it's growing in a way that's profit positive as members continued to take advantage of our conveniences like curbside, ship-to-home, Scan & Go, and now Scan & Go Cafe. Our membership income rose by 8.6% and we like the strength of our higher [ph] T-plus (00:37:35) membership. Despite reporting a modest year-over-year decline in operating margins due to marked down supply chain and LIFO, we rebalanced our inventory to enter this current fiscal year in a strong and healthy position.

So as I noted earlier, Sam's Club has been on a roll. At three-year compound annual growth rate is 12.8%. And again, that's without building clubs until now. Because of that strong top-line and the membership results over the last couple of years, we want to offer that Sam's Club experience to more people in new markets. So, we're expanding our physical footprint. In January this year, we announced plans to open at least 30 new clubs with a first to open next year right here in Florida. We also plan to invest in and modernize our supply chain. We'll add new distribution and fulfillment centers across the country, including five this year. One of our first locations will be in Atlanta. I'm excited about the strategic growth investments and have confidence in the returns we'll see from our investments in clubs, DCs, and FCs.

So, it's worth asking, how did we get here? Well, let me walk you through our strategy. Sam's Club is an item-driven business. We offered a limited number of great items at disruptive prices. It is a really simple and effective formula, and it powers our growth. We want to beat the competition on quality. We want to meet them on assortment. We want to lead on price. And we want to differentiate on convenience. So last year, to better explain our strategy and how it all comes together, we introduced our Sam's Club flywheel. So if you see that slide at the top, that's build a member obsessed culture. And that, I would say, is the key to our future growth. Our flywheel starts with the member and it flows from there. If we build a member-obsessed culture, we can't help but design and curate items and services that our members love. And if they love our items, we can't help but buy deep and provide low prices. And if we have great items at disruptive prices and we open up multiple channels for our

members to shop, then we can't help but drive our membership in revenue. So then we can invest more into our associates who then in turn take better care of our members, reinforcing that member-obsessed culture.

Our flywheel is a reflection of our priorities as a business and the evolution of our strategy as we compete and grow. I'm especially proud of the way that we've lifted the bar on quality. Our merchants have done a great job and we believe it's our time to actually lead. We're seeing great progress on quality when it comes to our private brand Member's Mark. It's now a multi-billion dollar business representing more than 30% of our sales, excluding fuel. And if we were a standalone company, it would rank in the top half of the Fortune 500 list, just Member's Mark brand alone. Last year, we relaunched Member's Mark as a more sustainable, purpose-driven brand. We say that it's made with the member and the planet in mind.

In other words, we want to sell the highest quality items that are also sustainably made. It's part of our overall effort to be a regenerative company. So let's take a look.

[Video Presentation] (00:40:57-00:41:56)

I think Member's Mark may be unique among private brands and that it's actually made with our members as well as for them. So we have this group of about 40,000 members. We call it My Member's Mark Community, and they actually influence the design and flavors of the items that make their ways to the club. So I'll give you an example. Our private brand, chocolate-covered almonds, originally rated below 4 stars with [ph] members (00:42:20), and that for us is not good enough. So our product developers took our [ph] members (00:42:24) feedback and we started over from scratch. They developed a new formula and they shipped it and a national brand to the almond lovers in our Member's Mark Community. And they tried both. And the new formula now outperforms the national brand. The star rating for this item is now 4.7 out of 5, and sales are reflecting that change. I think you have some of those almonds on the table in front of you. I hope you enjoy them. Another Member's Mark category where we've made great progress as well is apparel. Apparel sales of our private brand have increased more than 30% year-over-year, and we've seen substantial growth in net promoter scores for overall apparel sales from our members. So they are telling us that they like what we're offering and what they're buying. Member's Mark is our number one seller in apparel as members are responding to this improved quality as well as trend relevance.

We're also continuing to invest in brand partners that our members love. In the past year, we've added national brands like Lands' End, Christian Siriano and Vince Camuto and members are responding. Total apparel sales have increased by nearly 12% year-over-year even as we've reduced SKUs to make it easier to shop as well as to stock. We've had more apparel sales than ever with few brands because we had the right brands.

So I don't think it's a coincidence that as we've added new brands to apparel, relaunched and improved the overall quality of our private brand and focused on conveniences like Scan & Go, curbside, and delivery, they were actually attracting a much younger demographic. I mentioned those digitally savvy Gen Z and Millennials earlier. Well, over the past two years, Millennials and Gen Z have grown the fastest with our member base increasing at some 65% and 120% respectively. And not only are those cohorts growing, but combined they have the highest growth rate in sales. They are more likely to have joined us organically and had the highest digital engagement with us, including the use of Scan & Go technology.

So just to dive in on Scan & Go a little, overall, more than one in four of our members now shop in the club with our digital app Scan & Go. The NPS on Scan & Go is 90, which is phenomenally high. Members who use it are more likely to renew because it just delights them.

Let me show you how all of this fits back into our flywheel and feeds our momentum for more growth. So by designing and curating items members love in this case apparel and providing easy access, digital conveniences like Scan & Go, we attract members like our Gen Z and Millennial cohort. These cohorts provide good examples of the digital relationships we're developing with our members. These relationships generate data that Sam's Club uses to enhance the value of our membership. Because of data, we know our members better than ever. That allows us to lean into personalization and rich performance tracking. And this leads to lucrative relationships with our third parties. An example of this is our recently launched digital advertising platform, which we call MAP, which stands for Member Access Platform. It's growing fast and has a high operating margin and we're excited about MAP's ability to enhance our members experience while also contributing to profitability.

Because of our rich first party data, we can track the return on digital ads by a member shopping behavior for both online as well as in club. And I think that's a first for the industry. So as our flywheel has spun faster, we've invested back into the business to fuel further growth. We've enhanced the look and feel of the entire fleet of clubs, making them brighter, easier for members to navigate and more colorful. Both our members and our associates love it.

We've invested in technology to help us better serve our members and enable our associates. Our inventory scrubber, which you can see on the screen, takes 22 million pictures a day, automating some 35% of inventory management tasks. As we've rolled out new technology, we've made jobs more efficient. That's enabled us to create new jobs while keeping our head count nearly flat. As a result, we've been able to invest in wages.

Our average wage right, including incentives, is \$19 an hour. To underscore that, over the past three years, we've increased our top-line by 43%. We've kept our head count nearly flat, and that's allowed us to invest back into our associates. And I'm really proud of the way that we've invested in them. We've developed work schedules that fit their lives. We've created career ladders that open doors for them. And we're fostering a safe and welcoming work environment.

Like the rest of Walmart, we are people-led tech-powered business that saves people time and money. But I also think Sam's Club is different in important ways, especially when it comes to the warehouse membership business. We've developed unique relationships with our members and suppliers that should result in continued growth and market share. So, I want to close with five ways that I think Sam's Club stands out to generate growth, operating margin and returns. One, members love our value proposition of quality items, disruptive prices and convenience. We want to make that value proposition available to even more members. So, we're growing our physical footprint as we continue to grow eCommerce.

Two, we work with and for members to design the quality items they want. By soliciting their feedback during product development and design, we're highly confident of success when we go to market. Three, we're attracting younger members who have a more digital relationship with us across all channels. Fourth, our eCommerce business is growing in a way that is profit positive. We're using our physical footprint to optimize our digital approach. And lastly, we're using our data to work differently with our suppliers and see opportunity for growth with our member access platform. And we have insights on how our members shop and our suppliers love it. Our confidence about the future at Sam's Club is greater than ever as we continue to attract the next generation of digitally-savvy members who trust us to be a partner in their lives. We're building a strong relationship with our members that they can't find anywhere else and seeing a path to being number one in the growing club channel. Thank you for your time and interest in Sam's Club. I'd now like to invite Judith McKenna to the stage.

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## Judith McKenna

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

Thank you, Kath, and happy birthday to Sam's Club. The cake last night was fantastic for anybody that got a chance to try that. Good morning, everybody. It is a real pleasure to be here. As you've been hearing, our company is well-positioned for growth, margin improvement and to strengthen our return on investment. Our international markets outside of the US will contribute to all of these. And in that context, what I'd like to do is tell you a little bit about the role that Walmart International plays for the company overall and the opportunities that being a global business creates.

Today, we're already the world's largest international omni-channel retailer, and we provide a source of long-term and sustainable growth for Walmart. We have a path to grow to approximately \$200 billion in GMV over the next five years. And at the same time, we will more than double our profits.

We also expect our digital penetration to more than double during that timeframe. Now, this is the first time we've talked about our ambition, but it's really important, because without understanding that, there is a real temptation to see the complexity rather than the significant opportunity, which Walmart International brings.

Over the last few years, we spent time radically re-architecting the portfolio. We've made some really bold changes, which give us confidence in our future, and the results can already be seen with our 9% sales growth and 9% profit growth last year, which followed strong numbers the year before.

Back in 2018, our sales were \$120 billion, which then was about the same as our GMV. We divested of our businesses in Brazil, Argentina, Japan and our largest business at the time, which was [ph] Asda (00:51:13) in the UK. In round numbers, they accounted for a production of about \$40 billion of sales. But in parallel, we invested into a majority stake in the Flipkart Group in India. Today, we've already made up a significant proportion of those sales. So what was the rationale for the moves? [ph] That (00:51:36) strategy is really simple. It's strong local businesses powered by Walmart, and we use that as our North Star to assess where we could operate most effectively.

Now, it was clear that all of our businesses would need to become digital and omni-channel, and that required investment. But we knew that if we made choices, we could make those investments needed in those businesses that showed the highest growth and return potentials in the long-term. So we made deliberate choices to focus our footprint and to focus our resources and our talent where it mattered most. We now operate seven businesses across 19 countries Canada, Chile, China, Walmax, Massmart, Flipkart and PhonePe in India. Excluding the US, these provide access to 40% of the world's population as well as more than half of global GDP growth outside of the US over the next 10 years. That means we have meaningful scale concentrated in the right places.

A 500,000 amazing associates around the world serve 80 million customers each week. We operate 5,200 stores, but 96% of them are in three primary formats; Walmart, Sam's and other data format in Latin America. And built on that foundation, we have eCommerce platforms in every market. Today, we already have 21% of sales digitally, and we plan to double that number over the next five years. And as you heard from John David, our China business is already almost 50-50 today. This omni-channel breadth is unparalleled because it gives us access to customers across generations and income levels. We've got really big ambitions, but as my boss, my old boss, Greg Foran used to say, you get one point for talking about it and nine points for actually doing it.

So what are we doing? We're bringing our purpose of saving people money, so they can live better to life, and we're doing that through that strategy, strong local businesses powered by Walmart. But what does it actually mean? Well, each of our businesses is relevant to and tailored for the customers and communities we serve and each is anchored in value, access and trust. And that core is amplified by their ability to leverage the unique

benefits of being part of Walmart. Simply put, that means we're common where we can be, but only different where we need to be.

And one of the most important ways about common and maximized leverage is that we have shared strategic priorities across international and in fact across Walmart, being market leading in omni-channel, building scaled global marketplaces and growing complementary and reinforcing new businesses and income streams. When those three priorities are combined into an ecosystem, they actually become even more effective. So let's -- let me take a minute and maybe give you an example of these using Mexico and India to talk about it. Our Walmax business is listed on the Mexican Stock Exchange and operates more than 3700 stores across Mexico and Central America. By the end of this year, our sales will have doubled since 2014. And since then, that business has delivered a TSR of 162%.

As of yesterday, it had a market cap of \$70 billion. Walmax is a remarkable business. It's dedicated to finding solutions for their customers, but at the same time, accelerating growth and returns. In Mexico, specifically, we're providing access to goods and services for the country's 130 million people, half of whom are under 30. And we're building an ecosystem that connects customers to the benefits of the digital economy across stores and online. Just as in the US, the proximity of our stores to the population is high. And today we're already the leading omni-channel retailer in the country. In fact, in the region. We're building on omni-channel -- on our omni-channel offer from stores with a first party extended assortment and a growing marketplace seller community, including very recently cross-border sellers. That might sound familiar. It should. We're using the same playbook as the US and we're scaling it fast. In addition, though, we have a digital wallet called Cashi and we recently received approval to purchase a small Mexican fintech company which will help us on our journey to become an open loop.

One of the things I love about Cashi and why it's tailored specifically for Mexico is that you can use it even without a bank account. We also have a mobile and telecoms business called [ph] Byte (00:56:54). That today has 8 million total users and offers cheaper mobile data for customers right across Mexico. And we recently launched a health membership program to provide first contact healthcare for less than \$2 a month. And our Walmart Connect business there is growing into being one of the biggest media companies in Mexico. But much of the work that Mexico is doing is built on a common capabilities, technology such as the [ph] glass (00:57:25) eCommerce platform, Walmart Fulfillment Services and the marketplace global seller platform, common processes such as maximizing store pick efficiency or optimizing store layouts. And, of course, product, including thank you to Sam's Club because we have items in Mexico that come from Sam's Club in the US.

Gui Loureiro, our CEO in Mexico. He was previously CEO of our Brazil business and his team recently hosted an Investor Day. I think they summed up [ph] well, Maxwell (00:57:57). They said, our ecosystem will generate mutually reinforcing benefits for our customers. We're not just creating new businesses. We are creating an ecosystem which is bigger and more valuable than the sum of the parts. And I find that really compelling.

But let me turn now to India. In India, we have digital businesses. But just as in Mexico, we serve people throughout the country, where and how they want. Through the nationwide networks that Flipkart and PhonePe have built. Both platforms are anchored in scaled world class technology solutions that are built for India and increasingly we're seeing opportunities to leverage that technology, whether it's the Flipkart, our tech platform in Chile, the PhonePe fraud detection system, which we'll use and adopt to Cashi in Mexico or Flipkart, supporting Massmart in Africa to build its marketplace platform.

The leadership position that each of these businesses has means that we're even more confident today than when we very first invested into them. The scale of the addressable market in India is significant. 1.4 billion people with a median age of 28, and it's forecast to be the world's third largest economy by 2030. It's estimated

that nearly 700 million people there are already online, but only about a third of them have ever made an eCommerce purchase.

Today, Flipkart is the eCommerce market leader. It is truly customer centric with a deep engineering capability and a DNA of solving problems for the Indian customer. It's a really powerful example of how marketplaces and new businesses combine to create customers who can get value, access and trust. Flipkart's core commerce platform continues to scale. It's winning first time eCommerce customers from Tier 2 and Tier 3 cities and beyond. Its app is opened 2.4 billion times each month, and we recently added online health care and travel to provide even more access for people in a more trusted environment.

But at the heart of it, a Flipkart, is e-card. This was developed to solve the unique logistical challenges for eCommerce in India. It is a Pan India supply chain network, which includes 35,000 kirana partners. Think of small mom and pop shops, who can help provide last mile delivery capabilities closest to the customer. It also provides low cost fulfillment services for sellers, and it recently began to use its network to provide logistics to third parties.

As Flipkart continues to scale, the business model is strengthened, including its [ph] FASTag, fast-growing AdTech (01:01:11) business. The business now has a positive contribution margin that is continuing to expand. But we're pleased, particularly, with the progress that they're making to become operating income positive. PhonePe continues this theme of access value and trust. [ph] That builds (01:01:31) on their massive co-payments platform, the rails, which now link 450 million users to 36 million merchants and generate over 145 transact – 45 million transactions a day.

In the year after we invested in TPV, which is total payments value was around \$70 billion. This February, on an annualized basis, it hit the remarkable number of \$1 trillion. Payments are driving revenue growth and we're building on that with an increasing range and depth of financial services for both customers and merchants. For auto insurance, we're already the second largest digital provider in India, and we've recently launched a fast growing gateway for merchants. It's a powerful business model, and we announced in January a funding round for PhonePe with blue chip investors, which valued that business at \$12 billion. We're confident in and really proud of both businesses, giving that growing financial strength of [ph] their respective (01:02:49) cause.

We have clear paths to profitability for both and at the right time to IPOs, but I've only talked about two of our markets. But it is also important to note that by 2027, a third of our profit will come from outside these two. We really like the markets that we're in today, and each of our businesses has a unique and important position in our portfolio.

So finally, that brings me to leverage. This is one of the areas I'm most frequently asked about. Our strength in Walmart International is that we're not a one format or one platform retailer. We're deliberately operating local businesses, specifically tailored for the customer, flexible in their approach, which are strengthened by the global leverage that we've been able to create in recent years. We think of leverage in four dimensions; technology, knowledge transfer, talent and services. I've referenced examples of the first three as I've talked, but let me briefly share one more regarding services, and that's our global sourcing capabilities.

As John David and Doug shared, our company will grow, improve operating margins and improve returns. Not only is Walmart International driving helping drive all of these, but our sourcing business is a sweet spot that hits all three. We recently began restructuring the Walmart sourcing organization to better serve all of our customers around the world, with Walmart U.S. as its largest customer. But to give you a sense of the scale of this business, think of the equivalent to a top five global CPG company, but truly leveraging the volumes and specifications of product across a wide range of categories in an efficient and regenerative way. Think of it like bikes to barbecues



to bananas. Today, they collaboratively sourced for over 300,000 unique items providing value, access and trust for customers everywhere and at the same time strengthening communities through sustainable job creation.

So in summary, I'll leave you with a couple of points. The restructured portfolio is working. We're focus where it matters to drive growth, margin and returns. Our ambition is simple to reach GMV of \$200 billion and more than double our profits over five years. We've developed a blueprint for how to successfully run an international retailer. Our businesses are relevant to the customers and communities they serve, but they have common foundations. They have what makes Walmart Walmart. And they have the huge benefit of global leverage. So that approach and our results to-date give us the confidence that we can achieve the compelling financial ambitions that we've set out. But I will say that none of this would be possible without the brilliant teams around the world who make all of this happen. So I'm going to end with a huge thank you to each of them for making a difference.

Thank you. John, over to you.

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## John R. Furner

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

All right. Thank you, Judith. Great message. Well, I'm excited to be back in front of you again to talk about the U.S. business and a lot – a lot's happened since we had a meeting like this just a few years ago. And I want to start right where Judith closed and talk about how proud I am of the team. Just about, I guess, two or three weeks ago, we had around 7,000 of our leaders together in Orlando not too far from here. And we put up this number of \$79 billion in growth. And it's a pretty special number because that's our growth just over the three years.

But because we're in Orlando, we put it in perspective and I just told the team basically what you just did as you grew an entire Disney over that period. And we did it with the same kind of stores and they have really one new distribution center. So really, I just want to say hats off to the entire team for what they did. And it's been a unique period. And we had things like tailwinds. We've had inflations, but the team really deserved the credit for what they did.

And I was also really, really proud last year of the reaction the teams had to the inventory challenges. Now, first, the team identified what was happening quickly. They say positive every week we go to stores and they just have the smile on their face. We're going to work through it. But the team worked through 100,000-plus containers of inventory over the first half of the year, and they got us into a really good place and I'm really proud of them for what they did.

But it's not all just a coincidence that these things happened and the growth happened despite the challenges and everything that happened in three years. We took some major steps to become an omni-channel organization, and that began in 2020, really in the middle of the year, we made the decision to pull our eCommerce team and our store team together into one team. And since that time, there have been just dozens of changes, like we talked about one app and moving to the glass platform, launching Walmart+. And there's just a whole list of things that you can see here.

But we have one team that is leading everything from operations to stores, eCommerce all together. And we have one team led by our Chief Operating Officer, Chris Nicholas, who is here, who leads what we call the end-to-end organization. And that would include everything from production to delivery to the customer across the chain. That includes our supply chain, including our imports, our distribution centers, our fulfillment centers, stores last mile, even into the customer's home with Walmart and home. And we've always said the end of the cheer, the customer's number one, the customer comes first. But I want you to know that we're really working that way across the organization today.

So I want to talk about our priorities, our priorities for more growth. And the most fundamental way we do that is we win in retail. That's who we are. At our core, we're merchants. We've been merchants for a long time, and that hasn't changed for over 60 years. So ultimately, like you've heard this morning, we won with merchandise, we won with value, and we'll continue to work to build more flexible options for our customers. And even something like Walmart Connect that you've heard about this morning, the reason we have Walmart Connect is to connect merchants. It's to connect our suppliers, our sellers to customers. And we can do that while improving mix.

And on the fundamentals of merchandising, I'm really, really pleased with the progress. You'll see that in the store this afternoon. The quality is improving. That includes the store. It includes online. We have strong price caps that we're proud of. And recently, I've been much more pleased with the in-stock levels that we're seeing all around the country. And that's great to see the recovery from the last couple of years. Our store managers are in a much better position today to be merchants and merchandise their facility. They're in much better shape on inventory.

And so, you know about our momentum in food and consumables. And we are going to continue to work to soften the effects of inflation for our customers. We'll continue to lean into everyday low prices, will lean into our rollback program, and we've invested in customer offers just this last six months or so and Thanksgiving and Christmas to have those meals at the same price as last year. And we're going to do the same thing for Easter right now.

And we're pleased with our progress when it comes to self-manufacturing and production. We have plants in both the dairy department and the meat department and it's played an important role, particularly the last few years, in maintaining supply across the country. And one number I think is really exciting is we have today 22-owned brands, private brands, 22 brands that are over \$1 billion in sales and just eight of them alone are in the food and consumable area. So really big number of brands that are growing.

There's a brand called Vibrant Life in the pet department, which is accessories and apparel, pet beds. And it just is the latest to hit \$1 million. And then in areas like beauty, we have new brands like The Hair Lab and Relove by Revolution, and Pet and Beauty both are important categories because they're categories where customers are looking for more options like pet costumes or other things that we've seen trend up in the last couple of years. But the teams continue to make a lot of progress in merchandising.

And then we've talked about, as you know, a large part of our growth recently has come from high-end customers. And those are customers who have come to us for food or consumables during the pandemic or during times of inflation, and that's something that's happened previously when there were other dips in the economy or changes, people came to us for value, but we haven't always been able to hold on to those – to those customers. But this time and I'm really confident, it can be different because we offer so many more solutions in terms of flexibility with omni store solutions.

So having these options, the flexible options, paired with great product and great price and great value, give us confidence in our ability to retain these customer groups. So we're also making progress on the omni options, and improvements in the store with remodels, we've been growing our curbside capacity, our NPS and wait times have improved pretty significantly, and they're also improving for our delivery business. And that is – has led us to success with our most powerful recent tool, which is Walmart+, and we see retention rates improving. We also see higher engagement from customers and higher frequency from those who join the Walmart+ program.

Now, the average member, you heard this earlier, spends quite a bit more than a non-member. So it's an important part of the puzzle we're solving going forward for the long-term. And I'm also – I'd also add that the newer customers, like our existing customers, they love the focus on regeneration and sustainability. We have a

microsite called Built for Better, where you'll see a showcase of products that are Energy Star Certified, Rainforest Alliance Certified or certified by the Better Cotton Initiative. And those are important categories as well.

So, John David mentioned we're really focused on growing our general merchandise categories. And it's important. It's important both for mix, but it's also important to help us retain those new customers. And they come to us for everyday low price in grocery and consumables. But when they see the latest apparel offering in stores and online or patio furniture or tools, there are a lot of great categories there that can help them rethink Walmart and rethink this in a way that they'll stay with us.

And we go – we're going to continue to invest in our private brands all across GM, like Free Assembly and Scoop. And our apparel strategy, it's really about three things. It's about the elevated brands, it's about national brands, and it's about staying focused on opening price points. And it's really important that we do that because it helps us reach a wide variety of customers.

And then general merchandise is also a place where we are fighting inflation. Our On TV brand is now priced 29% less than a year ago, and it's now the number two unit seller in the United States. And then for Easter, we have over 100 items that are less than \$1. So that really helps customers build an Easter basket at a great price.

So another one I'm really excited about is our Remodel program. And if you've been in our flagship stores in the New York metro area, you would have seen some of the changes. And those include the great brand shops that are up front. We have digital displays. We have mannequins, we have wider aisles and we have updated fixtures. The customer feedback has just been fantastic and we are really encouraged by the early results we're seeing out of the Remodel program.

And the media last couple of days or if you've been online, you probably have gotten a chance to see our new – our relaunched homepage. The page itself looks great. It brings the best of the entire assortment together. Now a lot more color, it's vibrant. And we've always said you should be able to walk into a Walmart store and tell what season it is. And I think you'll see that happen exactly the same way on the homepage now. So really love the way this is turning out.

And then you heard a bit this morning about the marketplace. 3P is a really important part of the overall portfolio. And some of the numbers I think that are interesting is our eCommerce selection. We're now over 400 million SKUs online, so significant growth from a year ago, and 200 million of those are in apparel and over 60 million of those are in home. And then we've seen our seller account just this year increased 50% over the year before.

And when it comes to sellers, the important services that we offer that help them be a more successful seller at Walmart. Now, one is 175% growth and the number of sellers who are using Walmart Fulfillment Services and over 100% growth and the number of sellers who are using Walmart Connect. So that's a big win for us. It's a big win for our customers and it's a big win for the seller.

Additionally, we are increasingly becoming a destination for products that are made, grown or assembled in the United States. And those products represent about two-thirds of our product spend. In just a couple of years ago, two years ago, we decided to spend an additional \$350 billion of product – on product made, grown or assembled in the US over 10 years.

So we're happy with the goal. But not only do customers care about this goal, it's good business as the last few years have shown. And then this item here is our new Ozark Trail's bicycle. It's a great item. I saw it at our meeting we had just a couple of weeks ago, but it's a 39% price gap to the market and then you can see that it's

assembled here in the United States. So there are just a few ways that we're going to continue to focus on winning in GM.

And when it comes to inventory, I just want to add a bit more because it's been a hot topic for the last year so and it's key to winning in retail. So first, we feel good about our inventory position in total. You heard that in our latest quarterly results. Overall, I would tell you that the supply chain is clear. The supply chain is current. And looking at what's left, we still have some pockets of apparel. We have some clearance in stores we're going to work through, but that's all accounted for in our plan.

So we're in much better shape than we were a year ago. And the impact of that is store managers are now in a position where they can merchandise their store. We can lean in the top line. They have more autonomy and autonomy with things like store-level markdowns and we're becoming more efficient.

So I want to talk about people. It's exciting not only to look at the growth, but also what it means for the individuals on our team and distribution centers and stores and fulfillment centers. And when you look across the United States over the last five years, we've increased the percentage of our full-time associate base to 68%, and we've increased the average hourly wage about 30% to over \$17.50 per hour. We promoted an average of 195,000 associates each of those years, and we've achieved an enrollment in Live Better University of 100,000 people, which is really exciting.

And I'm excited about the tools, the digital tools, the way of working, apps like Me@Walmart and the 1 million handheld devices that we've distributed to our associates has helped them migrate so much of the work they used to do in the backroom with paper and sitting at terminals out to the sales floor where the real value is added. And those are things like setting modulers, working at side counters, working inventory management. It's all in their hand.

And then later today, when you're in the store, we'll show you a program called [ph] VisPick (01:18:54) that uses computer vision and augmented reality to help associates map their inventory, track their inventory and work their inventory acceptance.

One of the tools we've talked about to you a couple of times called Ask Sam, which allows associates to get questions answered on the floor on a range of topics. We've had over 2.3 billion questions answered by Ask Sam just in the last couple of years. So really great uptake, and over 80% of our team are now clocking in on their handheld device when they come to work.

So the third priority I want to talk about, which we've covered the last day or so, is the next-generation supply chain, the network. And as we talked about yesterday, we are now able to fulfill customer needs with a flexible omni-channel network that's connected and enabled by data and automation. It's a huge step change for us, and I know you've heard the thread of data the last couple of days and it's really a big enabler.

But for years, we've been serving customers with three separate networks. The supply chains that were great at what they did, operating all in parallel. We now have one network and it's allowed us to consolidate inventory much earlier in the supply chain and deconsolidate as late as possible, many times that's at the customer's home.

And a key part of the strategy is automation. You saw that yesterday. And if you ask us, why automate? The answer is it helps our customers, it helps our associates and it helps our business. Automation helps our customers with better accuracy, availability and speed. Automation helps our associates. It results in less manual labor. And over time, we've said, we believe we'll have the same number of associates, possibly even more, but

we'll have a larger business. And there'll be new roles that emerge that are more technical, better designed to serve customers and they'll pay more. And then finally, automation helps our business. It increases productivity, and it reinforces everyday low cost.

And the key nodes in this network are the store network, they are the stores. And for years, we've said and you heard it again today that we have inventory positioned within 10 miles of 90% of the US population, and that's important because we know customers want speed and we also know that the last mile cost more than the middle mile and the middle mile is more costly than the first mile. So having 4,700 points of distribution shortens the last mile, lowers delivery time and it lowers costs. So we're becoming more competitive on picking and fulfilling in stores, deliveries from stores are growing, the FCs are creating more density, we're delivering more doorsteps, garages, and as I said many times at or into the customer's home.

So in the future, all of that will become more automated, driven by data and software, and one great example of this is the market fulfillment center, which is a fulfillment center that's attached to a store location. We have a few of those in place now. We have more on the way. And once we have our software integrated with the solution we purchase, the hardware solution, we'll put even more on the ground.

So in several stores, we've already created the space for the market fulfillment center, either using existing space or adding on to the store. And until we have the automation in place, we've decided that we'd set a bridge solution, which we call a manual MFC. And this is where the associates do all the picking, but it's in a special place away from the sales force.

So we've got one of these in Grapevine, in Texas, and I've been there, I think, three or four times now where we've added this. But it's exciting to see what – what's happened there. So take a look at the video, and I'll tell you a bit more about it.

[Video Presentation] (01:22:46-01:24:06)

That store, you heard in the video, is fulfilling almost three times the online orders of an average store and a 99% fill rate is outstanding. It's really great to see the innovation. And you heard also the traffic on the weekend. So shifting a lot of the work from the sales floor to the MFC. Yes, it improves actually in speed, but it gives more room back to in-store shoppers on the weekends. So this will be even better when we get the automation in place. And again, if you come to see us in June, you'll see some of that.

As a result of this, though, we did create a new Lead called the MFC Lead. And Lin, who's on the video, we got to promote her in front of all of her peers, all 7,000 of those just a few weeks ago to the first ever MFC Lead. So really exciting for her, really exciting for people.

So I want to stop there and I want to bring up the two members of the end-to-end team to share a bit more. First, Mohan Akella. Mohan leads a team called The Centroid, which focuses on Supply Chain Strategy and Automation. And then, Prathibha [indiscernible] (01:25:04) – Prathibha Rajashekhar. She leads our Automation team. Welcome. Thanks for coming.

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## Mohan Ram Akella

*Senior Vice President-Walmart U.S., Walmart, Inc.*

Thank you.

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## John R. Furner

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

So Mohan, maybe start with you. We'll talk about a few things here this morning. But we've said throughout the last couple of days that data and technology are the things that tie this work together. And you've been talking about this vision of what you wanted to do for several years, and now it's all come together. So, let's hear about it.

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## Mohan Ram Akella

*Senior Vice President-Walmart U.S., Walmart, Inc.*

Absolutely. So we're very excited about leveraging data and technology and software and how it's accelerating our supply chain, both digitally and physically. We are rethinking our data architecture. We are rewriting the algorithms inside our planning and execution engines with an omni-channel customer in mind and a connected and flexible network.

Now that means better product availability and reduce cost for our customers. The smart engines that we are creating can orchestrate the flow of product from suppliers anywhere in the world to the store shelves and to customers' homes. The impact of high product availability and reduced cost for our customers is immense.

The foundational piece of this transformation is our ability to anticipate customer demand. Our forecasting engines are looking at customer demand at a finer grain than ever before. Across all demand types, Grocery, Ambient, InHome, GoLocal, et cetera.

In the picture here, you'll see half-mile hexagons, which we call pixels, which is the level at which we are predicting customer demand across all channels. Our forecasting engines will also have the capability to continuously update as they receive better signals from our stores, from our associates, from our customers as well.

And then, our dynamic inventory placement and replenishment engines will then use this forecast to deploy millions of items in the right quantity, at the right location across our stores, our fulfillment centers and our distribution centers to support this demand and maximize product availability.

John, here again, data and technology play a very critical role in evaluating billions of trade-offs to ensure inventory is optimally placed and ensure that the customers always have access to items at a great price and convenience. We then leverage our suite of last-mile engines to design customized service areas in towns and cities across the US with the right fulfillment and delivery capabilities to reach more customers, while reducing our cost for delivery.

The picture here shows three stores in the Dallas market and their service areas. You'll see that they are a combination of pixels. You'd also see that the service areas around the stores are not just uniform circles, but that was our traditional approach. Now, we use digital simulation tools to assign the right pixel to a store to fully service the customer demand, while balancing capacity and costs.

Finally, our routing engines are focused on designing smart routes that can combine multiple order types, Grocery, Ambient, InHome, GoLocal, and even eCommerce packages coming from our fulfillment centers in the same trip to build density and further reduce our cost to serve.

John, as you can see, we are taking a customer-centric approach to designing our supply chain and providing better omni-channel experience. How we deploy inventory, how we better understand customer demand, and how

we design and deliver through our last mile with the ultimate goal of helping our customers save money and live better.

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## John R. Furner

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

And these optimization models can be used for supply chain. So we talked about flexible and being dynamic. These models enable that. They also work for other things like advertising and understand where demand can come from the signals. So it's really great work and great to see this come together.

Prathibha, you're relatively new in this role, but we were at the company a long time, including the relaunch of Member's Mark at Sam's, which is fantastic. The Automation is an enabler of all this and the way that we are using that may – or understanding demand, optimizing and then deciding where to deploy comes to life through Automation. So tell us about that.

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## Prathibha Rajashekhar

*Senior Vice President, Walmart, Inc.*

Yeah. John, like you said, I have the responsibility for leading the Innovation and Automation team for Walmart U.S., which means my team is responsible for designing, developing and deploying automation across our network. But when we think about automation, we don't use automation for the sake of automating. We are being very intentional in why, where, and how we deploy automation.

Yesterday, you all saw an example of automation that we are deploying in our Ambient distribution centers. A number of you asked me about other types of automation, and I will show you a few examples today. So first, let's start with an automated fulfillment center like this one that just opened recently in Joliet, Illinois. These automated FCs are setting an entirely new precedent for the speed of fulfillment. The massive automated storage and retrieval system that you see here is designed to hold tens of millions of SKUs, which is double the storage capacity compared to a traditional FC.

What I'm most proud of is when customers orders are ready to be fulfilled, our associates no longer have to work long distances. Instead, they stand at an ergonomically designed workstation that is designed for their comfort and products come to them. By designing automation with our people in mind, we've surpassed our Associate Net Promoter Score in these facilities. Actually, customers also feel that benefit because these new FCs can double the number of orders we are able to fulfill in a day, which means packages arrive at customers' doorstep faster than ever before.

Now, let's take another look at the automated perishable distribution center. These state-of-the-art DCs are just remarkable. Their primary purpose is first to receive perishable merchandise from our suppliers. Second, store the cases and pallets of merchandise in an automated storage system that is nearly 80 feet tall. And third, retrieve them when a store order is ready to be assembled.

One of my favorite parts of this process is watching how our algorithms go to work to assemble cases and create this perfect pallet. The speed and efficiency of this operation results in us being able to fulfill more than 2 times more product compared to a traditional perishable distribution center. And our associates love working here because we're evolving their most physically demanding jobs in the traditional fulfillment – sorry, traditional DCs, which is our case order fillers into a tech-powered jobs like operators and technicians.

Third, John, as you mentioned, we're also going to add automated market fulfillment centers to stores, which will increase our digital capacity. Automated MFCs are fulfillment centers that are built in the backroom of a store. There are a few unique things about the way our MFC solution is engineered, like the proprietary design of the system. Here, the bots are the only moving part of the entire operation, which makes it a more capital efficient solution. They navigate a dense storage system that holds tens of thousands of items in totes, and the inventory is separate from the store inventory.

Why is this important, you may ask, because it reduces substitutions and last minute out-of-stocks for our customers. When customers place their pick-up and delivery orders, the totes are retrieved from the storage system and then brought to an associate to assemble the digital orders at workstations. Adding both manual and automated MFCs is only going to get us to expand our digital capacity as we continue to lean on our stores as forward-deployed fulfillment centers. They are really going to help us deliver the perfect order that delights our customers every single time.

So as you can see, we're not taking a one-size-fits-all approach when it comes to automation. We are looking at our facilities and designing unique solutions that match the needs of our customers, our associates and the business. And John, what I'm really excited about and encouraged by is that we're doing this with the best engineering and tech talent who are customizing our hardware and software combinations and tailoring the solutions to best meet our omni-channel operations and make sure that we are creating a competitive advantage.

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**John R. Furner**

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

That's great. Thanks. Thanks to both of you for coming up.

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**Mohan Ram Akella**

*Senior Vice President-Walmart U.S., Walmart, Inc.*

Thank you, John.

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**John R. Furner**

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

Thanks a lot. Thank you.

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**Prathibha Rajashekhar**

*Senior Vice President, Walmart, Inc.*

Thanks for having us, John.

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**Mohan Ram Akella**

*Senior Vice President-Walmart U.S., Walmart, Inc.*

Thank you.

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**John R. Furner**

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

So you can – yeah, thank you, both. So you can hear and see what we said earlier that we're creating a flexible omni-channel network that is enabled by data and technology all throughout.



So I'll just conclude by showing the same – showing you the same priorities that you saw yesterday, growth, margin, returns. We're investing in growth in merchandising, eCommerce and supply chain. And our mix is changing with retail, John David and our newer businesses, we talked about like Walmart Connect and Data and the investments in supply chain will enable stronger returns.

So Steph, I call you back up and we'll build on the next section. Thank you very much.

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**Stephanie Schiller Wissink**

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

Yeah. We're going to begin our Q&A. We've got three mics, one for each section in the room. I'm going to call the executive panel up. If you'd like to ask a question, please raise your hand and we ask that you state your name and affiliation before you ask your question. Let's go here, okay.

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## QUESTION AND ANSWER SECTION

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

Hi.

Q

A

Let people sit back.

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**Stephanie Schiller Wissink**

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

Greg, let's start with you.

A

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**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

All right. Thanks. I'm Greg Melich with Evercore ISI. I have two questions. First, thanks for the update on the history, but then also going forward, the 4%, what inflation number do you assume in the top line in that 4% as you're thinking out for the next few years? And then my follow-up was on competition.

Q

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**C. Douglas McMillon**

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

Could you give us your inflation number first, Greg, so we know...

A

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**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

I [ph] believe (01:35:59) 3% this year...

Q

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**C. Douglas McMillon**

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

A

3%.

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

Q

...by the end of the year?

**C. Douglas McMillon**

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

A

How does that compare to what you're thinking?

**John David Rainey**

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

A

Yeah. Pretty close. We're – Greg, we're assuming that this year is going to be somewhat anomalous, still feeling the effects of higher prices last year. But hopefully, as we get to next year and then certainly beyond that, we get to a more normalized inflationary environment – not just inflationary, but overall economic growth as well.

**C. Douglas McMillon**

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

A

One of the reasons why we issued guidance in the way we did is because there's volatility in that number, of course, by category, by country, by timing. So the team went through this year more than we would do in a typical year and looked at by category, by month. What are we up against? What do we think it's going to look like this year? We know we'll be wrong, but we think we're directionally in the right space. And we'll have to tell you after it's over with how it all worked out.

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

Q

I guess the follow-up is on as we went through COVID, Amazon built it looks like a couple hundred million square feet of fulfillment center capacity and their margins got crushed as they went through that. Now that they're focused on getting those margins back, how do you view Amazon with roughly the same GMV as you now competitively, as you really look to focus into EDLC and driving for returns over the next few years?

**C. Douglas McMillon**

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

A

Yeah. We learned from Sam Walton to pay attention to what competitors are doing well. And certainly, Amazon's done a lot of different things well, as have our other key competitors. But most of our focus is on what we can control our customers and how we get better. So as you could hear yesterday and today, we're working on what does that customer member experience look like in-store, in club for pick-up, for delivery, and how do we just keep getting better at what we're doing. And it's a full-time job figuring out how to put all the pieces that we have together in a way that deliver that customer member experience and also improve economics as we go. And it required us to put data together, put software together, work differently to maximize that, so that's where our focus is.

**Kate McShane**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Kate McShane, Goldman Sachs. Thanks for the meeting today. And I wanted to ask about the upside, John David, that you had mentioned from the operating income dollar growth. I think you said it could be 2 times versus

what you outlined today. First of all, do I have that right? And second, what accelerates or flexes to get to that higher level?

**John David Rainey**

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

A

Yeah. Well, let me start with what we don't control, and that's the economy. Certainly, we don't envision that the economy that we're in today is going to be something that persist for the three- to five-year planning horizon that we have. So, assuming we get back to more normalized growth, I think that underpins this forecast. But you appreciate with any set of initiatives that a company has, there's a range of outcomes that can happen that depend upon how customers respond to that, how well we execute as a team. And so when you look at the various initiatives and they're all different, the upside represents us doing at the higher end of that range. And then the lower end of that is more in line with what we talked about in terms of just outgrowing sales, that 4%.

**C. Douglas McMillon**

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

A

It's really been a unique set of years when you look back to 2020, 2021 with the pandemic emphasis and then what happened with inflation in this year that we just finished. And so when I look at what occurred, the 4 and greater than 4 objective still feels like it was a reasonable thing to put in place. It still feels reasonable today. And I think some of you get really focused on the relationship of those two numbers. So we kind of joked around the 6 and 3 number for the last five years and could, which if we could choose, would we have changed that to 5 and 5.5 or none of us want to give up on growth. We want growth in units and dollars to be as much as possible as we serve customers and members better. But we recognize that that operating income percentage does need to find its way to a higher level. We just don't want to do that at the sake of raising prices or anything that's detrimental to the business in the shorter- or long-term.

So I think the key is how do we put the productivity enhancements in place and how do we change the actual business model with these other income streams that are very complementary to make that a sustainable change. And the pace at which we do that is the key. And there's a lot to execute. We showed you yesterday this distribution center, and we shared that we've been working on it for six years and executing that is not easy. The work on data, software, and the physical aspects are not easy and it's not like we just snap our fingers and open the second center, the third center and the fourth center. It's plug-and-play, it's work. So there's an execution aspect of what we've got to get done over the next few years that will reveal that outcome. We're confident in our plan and our ability to do it. But there are a lot of moving parts to actually deliver it. So it's a little hard to call the timing. I think we'll have to earn it as we go and update you quarter-to-quarter.

**Stephanie Schiller Wissink**

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

A

We're distributing the questions by section. So, let's go to Michael next.

**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, guys. This is Michael Kessler from Morgan Stanley, asking on behalf of myself and Simeon Gutman. Thank you, guys. So first, maybe to follow up on operating margin expansion, balancing that with growing EBIT dollars, that's a big debate among many retailers. How do you think about that balance and the fact that you expect margin expansion, I guess, does that mean that you don't see as many opportunities to reinvest, to grow the dollars or it's about just the balancing act there?

**John David Rainey**

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

A

Yeah. Well, with the first part of your question, we actually look at a suite of metrics and that's why we frame this in the way that we did, where it's not just growth, it's expanding margins and higher return on investment. And so the – to the extent that we get stronger sales growth, we're going to see the EBIT dollars follow that margin expansion as well. So that's kind of how we think about that. In terms of some of the investment that we made like, I think it's important to understand that a lot of these things are in place today to where we'll be allowed to actually grow at a much more attractive incremental margin, lower unit cost in terms of exercising or realizing a lot of the fixed cost leverage that we have in the business. We'll continue to see that going forward. And as we scale some of the investments that we've made in supply chain automation and even some of the technology investments, we'll see that improve more as we go through our planning horizon. But a lot of that is in place today to help us realize those more attractive incremental margins.

**Michael Kessler**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And John, one quick follow-up on eComm profitability. And you mentioned getting over the next few years. Can you just contextualize a little bit how much, how close we are today to that versus how much progress you've made in the last few years? And any gating factors as far as why you may not get there as fast as you think?

**John R. Furner**

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

A

Sure. Let me take that. First important to recognize that scale matters in each one of these operations, whether it's eCommerce as a channel, standalone through fulfillment centers or the eCommerce business that moves through stores. And so what John David said that's really important is contributive profit rates are improving and the mix of business is improving at the same time. And we really look at those in parallel. So contributive profit rates, which would be what you sell a product for, the cost of it, labor, marketing, other variable costs that are attached to it, as that becomes positive and grows, then you can see the path to being able to leverage your fixed cost to point of breakeven and profitability.

The second piece of it, which is second for a reason because these should be additive to customer experiences, are the businesses that result – or that exists because of the result of a growing eCommerce business which is the advertising business, data and other services that are margin accretive. So the two of those put together, both in parallel are for improving and we can see the path to profitability, but we do those in parallel. So each week, Kath [indiscernible] (01:44:15) in her trade meeting, I have a trade meeting and we go through the economics, union economics of what customers buy, how we fill it and the P&L associated with it. And then separately ensuring that we are added the customer experiences, we work on these other businesses that are right for mix.

**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

Thank you. Chris Horvers, JPMorgan. So my first question is gross margin versus SG&A. The old productivity in Loop was less than price, suppress gross margin, leverage OpEx, flat operating margin, a lot of what you're talking about is – are good factors for the gross margin. So if you're okay with where our price caps are in the market, why couldn't gross margin expand over time?

**John David Rainey**

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

A

We actually expect for it to increase. I noted that in my comments, but it's improving because of the change in the business mix of our company. As these areas that John just referred to, things like fulfillment services, marketplace, all these other areas that are higher margin, advertising as an example, those contribute more, we'll see gross margin go up. It's not going to go up, as Doug mentioned, though, because we're going to raise prices over time. That's not the method to do that.

At the same point in time, as I noted in my slides, we see an opportunity for SG&A leverage. As a lot of these fixed investments or these fixed costs are in place that allow us to grow without continuing to add this overhead or additional expenses around that, the unit metrics around this are much more attractive than they were a few years ago.

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**Christopher Horvers**

*Analyst, JPMorgan Securities LLC*

Q

And then as a follow-up, can you talk about what you're seeing from the US consumer side? There's been some news about the low-end, maybe seen some more pressure snap headwinds. Obviously, you've seen trade down into the Walmart U.S. from the high-income consumer. So how do you think about the consumer today and what are you hearing in your surveys? Thank you.

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**John R. Furner**

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

A

It's similar to what we've talked about the last couple of quarters, certainly appreciative of the number of customers who have traded into the brand. We're welcome those customers. And a lot of growth is happening with the pick-up and delivery business in addition to other channels. So I'm confident and excited about our ability to retain customers that we've been growing because of the options and flexibility we offer.

Like we've talked about last couple of quarters, there has been some trade between brand and private brand. There have been trade trading down, trading over within protein categories and other things and mix remains a concern on the business side for us, it's on the customer side, of course, we're completely focused on customers – serving customers flexibly any way they want to be served and we would always take strength over weakness in the economy. But we're positioned well and we have a food business that's profitable and growing and we'll manage mix carefully as we move throughout the year.

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**Krisztina Katai**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi. Krisztina Katai from Deutsche Bank. Just wanted to touch on what you talked about earlier in terms of the new revenue streams as part of the longer-term opportunity for Walmart. Can you expand on that a little bit? I think there was a slide that said \$3 billion in contribution, including membership since FY 2020, working these realistically grow and to what degree do they play into the 4% top-line growth and to improving the longer-term ROIC? Thank you.

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**John David Rainey**

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

A

Let me take that. Yeah. So, yeah, you can tell from that slide that that's obviously a fast growing, but a much more significant part of our business today. And fundamentally, that sort of underlines the thesis around the business mix change. You've got these smaller parts of our business that are higher margin, but growing at a much faster rate. And so the simple math is that that suggests that our margin should go up. We think there's significant opportunity in a lot of this, but it's sort of two-fold. One is the apples-to-apples comparison of a transaction where

the pure unit economics are more attractive somewhat because of like what you saw yesterday in the investment in our supply chain, we're able to do this at more attractive rates. But at the same point in time, there's a growth opportunity there and things like delivering to customers

As you have more growth in your network, you're delivering more packages to a cul de sac, you've got density and there are improvements in the economics around that. We think that the value proposition to customers is very compelling and we're leaning into the areas following what we hear from customers. And so we think there's a big opportunity there. And this, to John's point, sort of it's an ecosystem of value drivers. The more sellers we have on the marketplace, the more assortment that we have, the more eyeballs are coming into our marketplace. The more eyeballs come into our marketplace, the more advertisers want to spend dollars. All of this works together, and we think that we've got a strong foundation to help grow this.

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**Stephanie Schiller Wissink**

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

Let's go to Paul right next to you, [ph] Kerry (01:49:01).

A

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**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Paul Lejuez, Citigroup. It's been a unique period of inflation for everybody, for the industry. I'm curious what you guys have learned about your consumer, about your competitive landscape, your competitors, how they behave during this period, and how that might influence your future decisions about how to price goods as we maybe see disinflation eventually, perhaps deflation. And then, just secondly, you gave a gross margin GMV for the International business, a goal, I think it was a five-year goal. I believe that \$200 billion. Anything that you could share in terms of the detail of what your U.S. GMV goal is over that same period? Thanks.

Q

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**C. Douglas McMillon**

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

Yeah. Why don't we take the inflation question first. John, you and Kath and others can, Judith can jump in here. But what goes through my mind is the business is uniquely diversified in an important way. We can protect opening price points and help serve customers that need us most. And I think that showed up big time on the Thanksgiving basket where we held prices that resonated people needed it, they wanted it, they appreciated it. And as higher-income customers come to us, whether that's in Walmart or Sam's Club, our opportunity to do good, better and best merchandizing is a fantastic opportunity. We can put fashion apparel out under the Scoop brand or the Free Assembly brand, and if everybody was the response to that in those income levels, I think the apparel business in Sam's Club that Kath told you about is another example.

A

So one of the things I love about this business is how flexible it is. You can be a merchant with opening price points. You can be a merchant with better goods. You can do that in stores, you can do that in clubs. You can do that online. And so we're portfolio managers, portfolio managers as it relates to the merchandise assortment, portfolio managers as it relates to the channel, et cetera. And so what I've seen our team do and what I'm seeing them do now is to learn how to do good, better, best merchandising even more effectively. And I think that unlocks an opportunity for us from an eCommerce point of view that is significant and the in-store, in-club experience need to cause people to realize they can go to walmart.com or samsclub.com and find just about anything they're looking for, nicer brands, nicer product. Without us walking away from the foundational opening price point business, which is so important to us.

**John R. Furner**

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

A

Yeah. And the everyday low price philosophy we've talked about a lot for a long time, and I agree with your statement in your question that this has been a pretty unique period and I would include probably the last three-and-a-half years in that period. And we decided in 2020 that we were going to stick to our philosophy and we're going to continue to price as low as we possibly could for the customer. And because we weren't high, low, there wasn't a large decision whether we end promotions or continue the promotional environment we were in. So we want to be lowest price in a trusted way on a basket of goods over time. And we did that through the three years.

We took a long view of customer value and earning customer trust because of pricing. And while we said and two ways describe it, comfortable, proud of the price gaps we have, we'll always put those at the top of the list of things to solve for because if we don't serve customers well, then all the investments and all the other initiatives in the background won't really matter long-term. We have to be great at serving customers and earning their trust each and every day on a basket of goods from the digital lab all the way to a physical store where someone is shopping. We've got to be great for them all the time there. So I think this long-term and consistency really matters. I don't know you have anything, Kath?

**Kathryn J. Mclay**

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

A

I think people are just highly attuned to value. So we've been looking at what are those national brands that are willing to partner with us to go after unit growth and where they don't want to play. Where do we use our private brand to be able to play that role? But I think people are attracted to where they can get value in the marketplace. I keep thinking back to do you remember we had a quarter where we were just almost on the line of making the double-digit comp and our protein merchant was out in the market and I got this great deal on crab legs.

And so we offered all the value to the member and the sales on that one item was enough to be able to push us across the line to get double-digit comps that quarter. And it shows the power of value that people are going after and the power of an item. And if you can show that value to the member, then I think they can see the value in the warehouse model and they can see the value in being able to get a great quality item at a disruptive price.

**C. Douglas McMillon**

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

A

Good for everybody but the crabs. So a lot of crab legs.

**John David Rainey**

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

A

You also asked about the consumer there. Just real quickly, there are a couple cross-currents in the quarter for us that you mentioned SNAP. And so that's a net negative for us. But I think it's important to note that a lot of that is recaptured through under other tender types. Offsetting that somewhat is you've got an increase in Social Security benefits with cost of living adjustment, which is a benefit to us. And then taxes also represents something that has an impact in the quarter. Earlier in the quarter, we were seeing taxes, your tax refunds higher year-over-year, during the last probably five or six weeks we've seen that decline. And I think net through the quarter is actually down year-over-year. So those are some cross-currents that have affected our business. But when you take all that together, it's -- the quarter is still shaping up as we expected.

**C. Douglas McMillon**

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

A

And as it relates to US GMV or enterprise GMV, we debate from time to time whether that's a metric we should share and when we should share it. I don't think we've got an update on that now, but it's on our minds.

**Scott Mushkin**

*Analyst, R5 Capital LLC*

Q

Hi. Thanks. Scott Mushkin at R5 Capital. I wanted to push back a little bit or kind of poke a little bit at the US growth rate that you guys are projecting. It seems like it would be down below the 4% for the enterprise given the growth rates at the other divisions. So when we look at it, we look at nominal growth in the US, pre-pandemic. It would be suggested that you could do better than that, especially with what we've been seeing here today and what we've been researching. So why not set the bar a little bit higher?

**C. Douglas McMillon**

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

A

Yeah, John.

**John David Rainey**

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

A

Yeah.

**C. Douglas McMillon**

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

A

He's asking if we've got sand in our numbers, which is a question that I ask from time to time.

**John R. Furner**

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

A

So I'm getting pressure on [ph] my both sides (01:55:34). Thank you, Scott. Certainly excited about all the opportunities and prospects we've said over the last couple of days and growth in traffic units, both the things we're focused on. And then this growth of new customer is exciting. For the first quarter, we have guidance. We're going to stay with that today and because there is uncertainty, as we talked about from a number of factors. But what excite me going forward are, the homepage, seeing the team really merchandising our presence online is fantastic. You and I had a chance to walk on the flagship stores together before we started to expand it. We're really excited about not only the customer presentation, but the brand and the way it came together, the early results are good. And you know me, so I'm a merchant and I'm focused on the top-line and items and prices and brands and we start everyday with growth. And long-term growth over time leads [ph] to build (01:56:28) our availability to leverage all the infrastructure and cost and other things. [ph] Robbie (01:56:33) three plus years ago you asked me a question about pickup and would we have the capacity that we'd hit soon and the team has just done an amazing job at finding new ways to expand capacity grow pickup, you saw the manual MFCs, the other MFC, so each -- each was exciting -- we -- every time we innovate, we open up more space for more innovation. The forklift you saw yesterday wasn't even an idea until we opened up innovation. We had space, so we'll continue Scott, pressing forward. Doug, I know my expectation, whatever I say should be higher and we'll keep pushing it ahead.

**C. Douglas McMillon**

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

A



You didn't do any better than I did.

**John R. Furner**

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

Yeah.

A

**Scott Mushkin**

*Analyst, R5 Capital LLC*

So my follow-up is on price. You guys again gaining a lot of market share, a lot of initiatives to gain efficiencies. How do you balance going after market share vis-à-vis profits maybe?

Q

**John R. Furner**

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

Yeah, it's always a balance. There's always the balance of top-line and what we see from customers and that's where we start every week on Monday, we start talking about the customer experience, we start with NPS and we work our way down to how the financials of the business are working. So, it's always about customers and top-line, one. Second, the price gap we'll never take for granted the market's dynamic. It's always going to continue to move and over 60 years and for the next 50, 60, 70, 100 whatever we can do, we've got to ensure that those gaps in place.

A

Second, we think about our associates. We want to give our associates the best possible tools we can to be able to make them more productive and extend their careers and there's an associate named [ph] Alan (01:58:02) in that facility wherein yesterday who is about 25 years in loading and unloading trucks. He was thinking of resigning and he's now become a [ph] robot tech. He's robot tech (01:58:09). He's changing batteries and wheels and chips and he's telling us he's got another 20 years ago. So that balance is important. And then the third, of course, are the returns and we've got to deliver returns and grow top-line and the bottom line faster than that John David, as we've said over time, so it's always a balance, those three. But we would always start with what's the customer value and ensuring that we are serving customers and delivering the way that we should.

**C. Douglas McMillon**

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

When I think about market share, price is just one of the levers to grow market share, and it's not the one that I would focus on in this moment for us first, because of where we're already positioned. It's more about apparel product quality, being on time as it relates to fashion and in-store presentation. It's growing the first and third-party assortment, especially the third-party assortment online. It's executing a pickup order and delivery order perfectly. That's the way to grow share and earn share. And price is a component of it, but those other things are what's going to drive sustainable share growth for us. And it's just been a difficult three years with the pandemic and the out of stocks. And then what happened last year and with all the other changes internally, I think we've just got opportunities to improve as it relates to being great merchants and executing those things. And that's where I expect share growth to come from. And I think it's a similar story beyond just Walmart U.S.

A

**Stephanie Schiller Wissink**

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

Let's go to Chuck and then [ph] we'll go on mic (01:59:34) to the second row.

A

**Chuck Grom**

*Analyst, Gordon Haskett Research Advisors*



All right. Thanks -- thanks very much. Chuck Grom from Gordon Haskett. Steph great presentation and great to see you guys. Question for John, just on the remodel programs, I was wondering if you could expand on the pace of the number of remodels you think you can do, the lift you might expect to see? And then, for Kath, on Sam's Club personalization, you're really pioneering on that front. Can you speak to the upside there?

**John R. Furner**

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



Yeah, sure. So on the first part of the question, we're really excited about what we've called the flagship remodel. We launched the first in [ph] Springs (02:00:07), Arkansas. Just over a year and a half ago, and early results are fantastic. It's one store. So we wanted to get that out and see what happened. A number of those have been implemented in the New York, New Jersey area. We have others all across the country. And [ph] Chris (02:00:21), probably the number is around 300 in the year we're in of that prototype. So a lot of confidence that has come together and the process leading to it.

The innovations that you see in the store, many of those happened in different parts of the country. And when we saw that those were working then we brought them to the single store to see how they all work together. And the results were very encouraging from not only NPS, but we would call it 5 star rating what customers say about the store and then the financial results. That led to the decision to an expansion of about 25 of which are in the Northeast and then around 300 this year. The remodel program in total is larger than that. So we'll roughly in this year on a pace of touching our stores within about seven years. But 300 will make it to the program that you saw. So we'll have more to talk about results later as we get more on the street.

**Kathryn J. Mclay**

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



On personalization, I would say, there's three areas that we work on and we've got more maturity in the first part. The first part is looking at personalization of membership and member's journey. And so, if I know that a member is with us as a club member, but they're not plus or they're not on auto renew or they don't use Scan & Go. Then we incentivize them along that journey until we get them to be a plus member who is using Scan & Go and on auto renew and they use that credit card because that is the most loyal and stickiest relationship we can have with them.

We've got quite a mature model as we go through that and different techniques and being able to engage different cohorts that are in different maturity through that model. The second area that we look at is personalization from a -- what we call a persona or a cohort. So I have this group of members that all enjoy shopping in Fresh, but these group that are like them, but they don't shop and produce specifically. And so how do we incentivize them? Whether it's just through prompts, whether it's through telling them inside information, a least preferences to give them like financial incentives, but that's also available to us. We've got the personas build out to look at kind of how do we start to behave people -- have people behave with us in a more stickier cross-category relationship. So it's a second area.

And the third area is just how do we personalize the look and feel of the website for each individual member based on what their shopping purchase history has looked like. So, I would say there is a lot of upside in two and three that we haven't explored yet. I think we feel good about where we are in one, but two and three specifically have value for us in our digital ads business and our relationship with our suppliers. While we've built out the tech,

we haven't necessarily got to maturity in the ways of working. So for me, that's like some unspoiled – unexplored upside for us that we haven't really kind of really got to material.

**Stephanie Schiller Wissink**

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

Kelly, let's go to you next. Then you can pass the mic across the aisle.

A

**Kelly Bania**

*Analyst, BMO Capital Markets Corp.*

Okay. Thanks. Kelly Bania from BMO Capital. I just wanted to go back to CapEx and make sure I understand the message clearly and how that looks over the next few years in light of the automation rollout. And if there's any change at all into your outlook for growing free cash flow dollars?

Q

**John David Rainey**

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

Sure. I'll just note, I think we're nine questions in before we got the CapEx question. So I would have missed the over/under on that, Kelly. So a couple of things to note about CapEx. One is, as I talked about earlier, we're very return focused. We want our ROI to go up every year. And importantly, a lot of the CapEx that we're spending on these projects like you witnessed yesterday, we've got experience with them. We actually know what some of the returns are. So in that sense, this is kind of analogous to, like, two decades ago when we had the super center that was a proven model with known returns, and then we scaled that out. That's kind of what we're doing right now with supply chain. The other thing I'll note, which I think is important, is that it's actually pretty remarkable and unique to be a 60 year old company and have this kind of organic investment opportunity that can drive these types of improved returns. That's why I said capital for us is a competitive advantage. There's not a lot of companies that can go do what we're doing. And so as you look at CapEx over the planning horizon, we expect it to be at this level for the next few years. But importantly, whether it's higher than that or less than that, we're very focused on making ROI as an enterprise go up each year.

A

**Kelly Bania**

*Analyst, BMO Capital Markets Corp.*

Thank you. Can I ask one more on high margin initiatives? With respect to advertising, what's really different about Walmart's advertising business? What differentiates it or is it 3P in those 400 million sellers? Is it the size of your grocery business and the leverage there? Just what's really stands out versus peers?

Q

**John R. Furner**

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

It's really a combination of all three. The food business is extremely interesting for customers and suppliers. Then the eCommerce business is also interesting for suppliers and sellers. And then something Kath said which, congrats to the Sam's team for the performance [ph] has been ahead (02:05:40) is the ability to close the loop from advertisements that have been viewed by a customer and closing the loop not only online but to an in-store purchase. So the more of -- in our case, the more members become digital and we are able to communicate with them in two ways then the greater ability to close the loop like that for advertisers, and Sam's, of course, has the wonderful advantage of having membership numbers attached to every transaction, every member. So I think that's really the path. And then at Walmart, it's the same plus then the marketplace opportunity.

A

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*



Hi, it's Bob Drbul from Guggenheim Securities. I was wondering if we can talk a little more about Walmart+? Just in terms of any metrics you might be ready to share with us, Doug? And just the traction there, any of the involvement in terms of the overall business? And then, the second question just on last mile, with a lot of the supply chain initiatives, there's a lot of talk moving in closer and closer. Can you talk a lot -- talk more about last mile delivery costs and what you're seeing driver availability and just profitability with that piece of the business?

**C. Douglas McMillon**

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



Yeah. And John, before you comment on Walmart+, I think, Bob, I would just remind everybody that everything you asked about applies, I think, Judith to Mexico, maybe India and other places. This business model that's changing, that includes these component, stores and clubs, plus all the eComm stuff, plus advertising, plus last mile, all of that is happening everywhere. So one of the things that we think about when we release our quarterly results, for example, is how is it best to communicate to you all about what's happening in the segments and what's happening across.

And in my experience, we're closer to being a true global enterprise with synergies across than we've ever been. We grew with international acquisitions, picked up different brand names, picked up in some cases, different formats, different systems. And the work that's happened as of late is causing us to be able to work across and get leverage and speed in a different way than we used to. So I just want to tune your ears as we have future conversations. When you ask about an ad business, what goes through my mind is the world, not just Walmart U.S. or membership, which is playing a role in international markets too. I think these components are going to, obviously, play out everywhere.

**John R. Furner**

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



Yeah.

**C. Douglas McMillon**

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



And Walmart+?

**John R. Furner**

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



Yeah, it's an important part of the overall offer. We've said that and we just want to reiterate that. And some of the things that are really exciting, number one is the amount of times a member spends with us and then the annual spend is significantly higher than other channels. Consistent growth in the numbers since we launched in October 2020. What we've moved to most recently that I think is really helpful and also very challenging for the team is measuring what we've referred to a couple of times today, which we call perfect orders. And perfect orders mean no substitutions, exactly what the customer ordered, and on time, not early, not late, but on time. And during the pandemic, many of the things that we did, we launched delivery to get people what they needed as soon as we could. In some cases, that was early, and that actually is a hindrance to NPS, which I'll talk about. And as the last few weeks, we're seeing the highest NPS levels with Walmart+ members that we've seen.

So what we've really been focused on is trying to be the best we possibly can for members. We've always said for the entire organization, we want to be the best, not the biggest, the best can lead you there. So we're focused on

the best in serving members. How that all relates then to the last mile, the last mile delivery is, a large percentage of our deliveries from stores are to Walmart+ members, but that's not the total, and then there are deliveries from fulfillment centers. And think of this chart we showed yesterday with the three supply chains: the ambient, the perishable, and fulfillment, being able to bring more of those deliveries together, so that they come from a delivery station, which is also a store, in a van, creates a situation where costs we can see going down pretty dramatically.

So, your most expensive delivery from store is a single grocery order. A single grocery order, which GM comes down, and then home order with grocery and GM, up all together bring the variable costs down. So, when John David mentioned driving through a cul-de-sac and having more deliveries, that's really the goal. So, building density and frequency of delivery is what bends the marginal costs, which leads back to one of the original questions, eCommerce profitability, that's help contribute profit rates continue to climb on the operational metric of eCommerce.

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### C. Douglas McMillon

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

A

I'm still concerned that, that metric, should we share it, would punch above its weight, whatever the number is, and I don't want that to happen. So, the day one number we give you for membership across markets, you'll evaluate that, opine on how you feel about it. Then the next quarter, you'll ask where it is, the next quarter, you'll ask where it is. When we would rather you focus on comp sales in stores, what's going on with pickup, are we winning with delivery. This can be a very successful company without membership, except that membership is the best way to pay for delivery from a customer point of view. And so, as they become members to pay for that delivery, that opens up opportunities for us to do more. But in the big scheme of the company, it's important and we like the behavior we see from people when they become members, but it just needs to be taken into a context and that's why we're sensitive to it.

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### Stephanie Schiller Wissink

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

A

Okay. Peter, and then Karen, and then Rupesh.

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### Peter Sloan Benedict

*Analyst, Robert W. Baird & Co., Inc.*

Q

Thank you. I'll be quick. So, Peter Benedict at Baird. A question on ROI. So, if we look at the business a decade ago, it was around 17%, I think two years ago, you're around 15%. Last year wasn't great for obvious reasons. This year, you'll probably land somewhere around 14%. So, John David, the question is, how do we think about the next three to five years? You said you're targeting kind of annualized improvement in ROI. What's a reasonable target as you think about maybe, and then are there stretch goals? Just trying to kind of put a finer point on that.

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### John David Rainey

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

A

Instead of giving you a number, Peter, let me tell you more about the trajectory. This year, we'll see a pretty marginal increase, nothing to really get too excited about, but we do want it to go up. As we look at our five-year plan, there's a more notable increase the following year. Then again, as a lot of these investments are in place, we talked a little bit yesterday, just about the pace of rollout and some of the automation that you saw in our DC, as that has more scale, then the last three years of the five-year plan, you see more notable increases. And so, we want to get up to the highest ROI that we've ever had. A lot of that depends upon our ability to execute,

depends upon assumptions around consumers responding to the offering that we have, but we believe that we've got a plan in place that, as I said, can meaningfully improve our ROI over the next few years.

**Karen Short**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Karen Short, Credit Suisse. Good to see you all. So, I have two questions for you. The first is, as we look at alternative profit and with the context of greater than 4% total operating profit growth, you could envision a scenario where operating profit ex-alternative starts to even decline just within – like depending on what you think the growth rates are. So, I'm wondering what you would say to that in terms of operating profit ex-alternative. And then, just philosophically, with respect to earnings, obviously, you've given guidance and it's somewhat conservative, I suppose, for this year. But what is your philosophy on actually flowing through upside or reinvesting?

**C. Douglas McMillon**

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

A

Yeah. Just on the tail end, I think we're more focused on flow through right now than we've been. The slide that John David showed where we've made investments on price, wages, eCommerce and technology, we feel like those investments needed to happen to serve customers well. They had an income statement impact. I got asked yesterday on the bus, is there a pivot to more of a CapEx investment cycle than an income statement investment cycle, and the answer was yes, there's a phase here we're moving into that looks more like capital primarily driven by the remodels and automation. And so, I think that's important context as you think about how do we view flow-through, I look at the operating income percentage of the company and how we've done over the last few years, and the choices we made and feel like things are in place now to be able to make that pivot. And so, our mindset has shifted.

**John David Rainey**

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

A

And I think that builds to the other part of your question. If you strip out some of these initiatives that we have that are higher margin, higher growth, and just we'll call it core retail, this is why I had the slide at the beginning to show the delta between sales and operating income. We will continue to invest in our associates, we'll continue to invest in price, but that is more business as normal going forward versus what you may argue was a little bit of catch-up historically. And so, we feel like we're in a much better place as we think about our core retail business going forward where margins can keep up with sales.

**Judith McKenna**

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

A

I would just say as well on that one, you do need to think about these as being part of what we do. And I think there is a danger of separating it all out, because it's completely driven by each part of it, and increasingly in our business, it's becoming harder and harder to figure out which piece flows into which piece of it. So, I just encourage you to think about it in a whole as well, because that's the way we look at the business. As John said, you can't – without the retail, you wouldn't have these streams, but they actually help bring people to the site, because we have great adverts from our sellers, who get to show that products as well. So, just to think about as you think about what that model looks like.

**John David Rainey**

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

A

It's a really good point, Judith. And candidly, we had debates like what we disclose around eCommerce, because it's harder and harder to actually bifurcate what is something happening online versus happening in a brick-and-mortar store, because those lines are blurring so much, and you're right, Judith, it's an ecosystem. That really is.

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**C. Douglas McMillon**

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

A

They are blurring, because they're complementary. And I think we've drawn a good line as it relates to what we do and what we don't do. You can imagine the debates we have about what businesses are we in, what do we resource, what's the prioritization, but I think we're clear on what the priorities are and what we're doing is all interrelated, and that's a good thing for the customer as well as for the business model.

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**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning. Thanks for taking my question. Rupesh Parikh, Oppenheimer. So, two questions. The first on working capital. So, it is going to be lower than it was pre-pandemic. Just want to get a sense of if you see any working capital opportunities, whether an inventory turnover or an AP leverage. And then, second, [indiscernible] (02:16:23) last week and I know Judith was there as well. A lot of discussion there on AI and ChatGPT. So, just want to get a sense of if you see any new use cases in that area and how aggressive Walmart is investing in AI right now.

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**John David Rainey**

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

A

Maybe I'll take the working capital piece, and then Judith and Suresh probably as well can cover the second part of the question. You're exactly right, Rupesh. When we look internally at our plans for the year and we look at our working capital metrics and really the suite of them, we recognized that compared to what we've done historically, we've got a pretty good opportunity and it's something that we're very focused on. We want to be able to use the cash that we have or use our balance sheet as efficiently as possible. And I think a lot of things probably changed for good reason during the pandemic, where maybe certain payment standards were relaxed or whatever, but I think there's an opportunity to bring that more in line with what we've done historically.

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**Suresh Kumar**

*Executive Vice President, Global Chief Technology Officer & Chief Development Officer, Walmart, Inc.*

A

Yeah. I'll take the AI stuff. So, lot of excitement about ChatGPT, Generative AI, definitely presents a pretty significant advancement in computing, but we have actually been using ML, including large language modules for quite some time with everything that we do. The demand forecasting slide that Mohan put up with those hexagons, that's driven by our own ML models. Personalization, that we have talked about quite a bit, that's all using ML. Substitutions, we actually built our own ML model, which actually has been recognized outside, in terms of how we serve our customers. So, ML on top of the data that we collect has been an integral part of the digital transformation right from the beginning.

Specifically with respect to large language model, we've actually been using GPT 3.0, which is their open source version, for quite some time to actually drive the Text to Shop that you saw in the video last time. It's also been used for answering customer questions. Chile uses it. Mexico uses it. So, it's deeply embedded in everything that we do. For GPT 4.0 and all the new things that are coming out, LLaMA has come out, we are actively working both with OpenAI and with all the open source initiatives with Microsoft to actually take their latest developments and integrate that into our systems. If it benefits our customers, if it makes our associates more efficient and more

productive, and if we can draw better insights about our business, we will use it and we have been doing it right from the beginning, and we'll just continue to accelerate that.

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**John David Rainey**

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

A

You actually got a chance to see some of the AI yesterday in our supply chain [indiscernible] (02:19:24) was talking about this, but even when the robots are going to retrieve packages, when one slows down, that's not optimal. And we're learning from that constantly, so that we can constantly route those at the same speed. And so, that's an example of that in practice that you saw yesterday.

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**Stephanie Schiller Wissink**

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

A

We're going to go to Ed, and this might be our last question.

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**Edward Yruma**

*Analyst, Piper Sandler & Co.*

Q

Hey. Thanks. Ed Yruma from Piper Sandler. You called out the opportunities in India and Mexico. You omitted China. Was kind of curious have there been any changes in the market and the role of the market longer-term?

And then, second for Suresh. You talked about addressing the tech deficit. Are there any places that you think Walmart is leading in tech today or areas you flag to lead? Thanks.

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**Judith McKenna**

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

A

Maybe I'll start with China. There is a limited amount of time to talk about each markets. So, talked about Mexico and India, because there's been a lot of change within those. China team and the China market has seen huge amounts of change over the last couple of years, as everybody knows, and through that COVID period and then opening up at the beginning of this year was quite dramatic in the change that we saw. The move that they've had to 50-50 of online and offline with its total store pick model has probably been the biggest change that we've seen. Pre-pandemic those levels were less than 10% penetration. That is a huge shift in a really short period of time.

We've continued to see, just like the Club Channel here, that our Sam's Clubs are doing well. They appeal to a higher demographic within China, but our hypers as well are seeing traffic beginning to turn towards them. I do think the Chinese consumer has been under real pressure, but I think that we're seeing some better signs of consumer confidence improving. And just like in the rest of the world, people are thinking about where do they want to shop, they're going to still shop online, it's still really sticky, however, we are seeing people wanting to come into stores, particularly for occasions.

So, Chinese New Year, we saw the buildup to it in Q4 and we're starting to – we saw through Q1 real strength in that as well, particularly on more premium products, as people wanted to celebrate and open up. So, I still think there is a lot of runway in China. The last couple of years have given our business there a bit of a chance to reevaluate to really think about what's important for customers and how do we build off the core of it. But we'll continue to open Sam's Clubs, and you might see us open the hypermarket there as well, but the online strategy is really important.

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**Suresh Kumar**

*Executive Vice President, Global Chief Technology Officer & Chief Development Officer, Walmart, Inc.*

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Yeah. And in terms of technology, there are many different areas where we are not only doing world-class technology, but I would say that we are very unique. Let's start with omni, right. So, we are the only retailer at scale where we can understand customer both online, offline. And so, we have a lot more insights about what our customers do. That allows us to be able to better tune out models, to be able to better – to be able close the loop in better ways. The whole closing the loop as far as advertising is concerned, that's industry leading, nobody else is doing it the same way that we are able to do.

What you saw in supply chain, which is connecting multiple different supply chains together, that requires deep technology. I don't think anybody else has the capability to be able to do that. We are actually also investing very deep in the technology stack as well. We have got a hybrid cloud that combines out of the best of public cloud with our partners, with our own private cloud investments, and we are tying it to the edge as well. This is something that's pretty ground-breaking, nobody else has been able to do that. So, plenty of examples throughout the enterprise in terms of how we are leaning forward, using technology to better serve our customers and our associates.

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## Stephanie Schiller Wissink

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

All right. I think we're up on time. Doug, I'm going to turn it over to you to close out the session this morning.

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## C. Douglas McMillon

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

Yeah. Let me start with gratitude. A number of you have followed us for a long time and you know us well, and we appreciate that. Thanks for paying attention to our business. We were excited to have this time with you the last couple of days to show you the distribution center and look forward to showing you the store and club. I hope you get the sense that we've got, which is we're leaning forward on our front foot. We've got great opportunities and we're positioned to take advantage of them across the business in lots of different ways.

I think that the purpose that we talked about last night is important, it's timeless, it motivates us. Our values and culture are clear, and our strategy is clear, and we're really focused right now on execution, like let's just get some of this stuff done and it's happening, it's moving. And what the team has done during these last three years to move forward on the strategy, while managing all the short-term things that came our way is really impressive to me. We have a fantastic leadership team, many of which are represented here, but a bunch aren't, and we've got a great set of associates making this stuff happen. So, we're excited about this year and excited about these next few years, and we'll visit some more when we go to the store and club in just a little bit. Thank you, all.

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## John David Rainey

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

Thank you.

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