

18-May-2023

Walmart, Inc. (WMT)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Stephanie Schiller Wissink

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

C. Douglas McMillon

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

John David Rainey

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

John R. Furner

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

Judith McKenna

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

Kathryn J. Mclay

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

OTHER PARTICIPANTS

Michael Lasser

Analyst, UBS Securities LLC

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Oliver Chen

Analyst, TD Cowen

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Kelly Bania

Analyst, BMO Capital Markets Corp.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Scott Mushkin

Analyst, R5 Capital LLC

Seth Sigman

Analyst, Barclays Capital, Inc.

Edward Kelly

Analyst, Wells Fargo Securities LLC

Karen Short

Analyst, Credit Suisse Securities (USA) LLC

Gregory Scott Melich

Analyst, Evercore Group LLC

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

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

I will now turn the conference over to Steph Wissink, Senior Vice President, Investor Relations. Steph, you may begin.

Stephanie Schiller Wissink

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

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

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

Today's call is being recorded, and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include, but are not limited to, the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements, as well as our entire Safe Harbor statement and non-GAAP reconciliations on our website at stock.walmart.com.

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

C. Douglas McMillon

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

Good morning, and thanks for joining us to discuss our Q1 results. We had a strong first quarter. Sales growth was strong globally, including growth of 26% in eCommerce. Profit grew much faster than sales, and we made further progress on inventory levels.

The omni-channel model we're building continues to resonate with customers and members. As expected, a higher mix of sales in the food and consumables categories negatively affected gross profit but strong expense management and progress with our newer mutually reinforcing businesses helped us grow profit ahead of sales at 17.3%. The business model we outlined at our recent Investor Conference is taking shape.

International had a great quarter, continuing our momentum from last year. Sales grew 12.9% in constant currency, and profit grew even faster at 41%. China, Walmex, and Flipkart all saw double-digit top-line growth. In China, the reopening of the economy coincided with the Chinese New Year season, and that drove traffic to our clubs and stores. Sam's Club China continues its strong performance.

For India, a group of us were there last week, and we left even more excited about our opportunities. Flipkart and PhonePe are doing well. Our Walmart tech team there is strong, and we have a big opportunity to increase our exports from India across quite a few merchandise categories.

In the US, both Walmart and Sam's Club performed well, with good transaction growth, positive units in food, and strong eCommerce growth. We continue to gain market share in the grocery category, including with higher-income and younger shoppers, and we saw good growth in membership income in both businesses.

At Sam's Club US, member count and Plus member penetration hit all-time highs in the quarter. Our growth is now being driven by convenience in addition to price. We see it across formats and income and age cohorts. In terms of inventory, we're in good shape. In-stock is improving, and excess inventory keeps coming down. We see it in the numbers and I'm seeing it on store and club visits.

Globally, customers continue to seek value given the impact of inflation. We see it in the US and in other markets like Mexico, Canada, and Chile. Private brand penetration is up about 110 basis points versus last year for Walmart US and 50 basis points for Walmex.

We continue to manage our price gaps and deliver value for our customers. In Walmart US, general merchandise costs are now lower than a year ago which is great, but they're still higher than two years ago on like items. In the dry grocery and consumables categories like paper goods, we continue to see high single-digit to low double-digit cost inflation. We all need those prices to come down.

The persistently high rates of inflation in these categories lasting for such a long period of time are weighing on some of the families we serve. This stubborn inflation in dry grocery and consumables is one of the key factors creating uncertainty for us in the back half of the year because of the cumulative impact on discretionary spending in other categories, specifically, general merchandise.

We think we've got guidance where it should be, reflecting the appropriate amount of conservatism given the external environment. We feel very good about our performance, our multiyear momentum, and our ability to serve people however they want to shop and do it at a value. We're executing well and performing well in all three segments. John David will say more about how we're thinking about guidance, in a minute.

As we look ahead to Q2 and the rest of the year, we're focused on getting our merchandise costs and retails down to fight inflation for our customers and members, which will help us with mix; pickup & delivery execution, whether that comes from a store or an FC; expense management; and inventory management by item and category. There are places to play offense and there are places to be more conservative. We shouldn't be treating every category the same way, and we aren't. We're playing offense where we should and controlling what we can control.

Last month, we hosted our Investor Meeting in Florida where we visited a DC, a store, and a Sam's Club. For those of you that made that trip, thank you. We really enjoyed it, and hope you did too. We had three takeaways. First, we're positioned to grow because we can serve customers and members however they want to be served. Second, over time, we expect to grow profit faster than sales and improve operating margin due to productivity improvements and the mix of businesses. And third, we'll be disciplined with capital to improve ROI as we grow operating income.

I hope you can see how the investments we've made in recent years are driving results. We added nearly \$11 billion in sales in Q1, delivered 58 basis points of expense leverage, and expanded operating margin by 34 basis points. As for returns, we want operating profit growing faster than sales, and we expect to see an inflection in ROI in the coming quarters, as we begin to lap large one-time items from past quarters.

The Investor Meeting also gave us an opportunity to show off a piece of the automation we're working on in an ambient DC. And while it's an important piece of what we're building, our overall set of capabilities go far beyond that. We're building a more connected, intelligent, and automated network. We're adding market fulfillment centers, or MFCs, which utilize automated storage and retrieval systems, and we expect to add thousands of electric vehicles to support our last mile delivery capabilities. It's about creating a supply chain that's better, not just bigger.

We're excited about how our new capabilities will help our associates by making some of our more physically demanding jobs into more rewarding, higher-skilled career paths. We're hosting our annual Shareholders' Week events in a couple weeks here in Northwest Arkansas. Part of the experience will include a tour of an MFC we've just opened. It'll be a good chance to see another piece of what we're building.

I'll close by saying, thank you. Thank you to our associates for helping us deliver another strong quarter. We're proud of them and pleased that both Walmart and Sam's Club in the US were recently certified as a Great Place to Work by the industry leader in workplace excellence. Thank you for your interest in our company.

Now, over to John David.

John David Rainey

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

Thanks, Doug. I'd like to start by thanking our customers, associates, and partners for helping us deliver a strong quarter to start the year. Despite a challenging macro environment, the team executed and we made progress advancing our various strategic initiatives. I'll begin by reviewing highlights for the quarter using the framework of growth, margins, and returns; then I'll spend a couple of minutes reviewing key themes from our recent Investor Day before detailing our updated guidance.

Starting with growth. For the first quarter, constant currency sales increased nearly 8%, or about \$11 billion, with strength across all segments. Walmart US comp sales excluding fuel increased 7.4%, including 27% growth in eCommerce. After a strong start, sales growth moderated as the quarter progressed. The 90 basis point deceleration and comp sales growth from Q4 was driven by pricing and the effect of lapping higher inflation rates in the prior year period. We continued to gain share and grow unit volume in grocery. This was consistent with our expectations and how we built our plan.

At the headline level, consumer spending has proven resilient, but below the surface we continue to see signs that customers remain choiceful, particularly in discretionary categories. In Q1, we saw a nearly 360 basis point shift in US sales mix from general merchandise to grocery and health and wellness. To benchmark, the magnitude of this shift exceeds the 330 basis points of category mix shift we experienced in all of last year.

In addition to the persistence of inflation in food and consumables, customers were also impacted by a reduction of SNAP benefits and lower tax refunds. These impacts were partially offset by higher spending tied to an increase in the cost of living adjustment for social security benefits. In our International segment, sales were strong, up nearly 13% on a constant currency basis led by double-digit growth in China, Walmex, and Flipkart. Many of the same impacts on consumer spending in the US affected our international markets too. In Sam's Club,

US comp sales increased 7%, with member fee income up 6.3%. Average spend per member increased mid-single-digits.

Now, on margins. Consolidated gross margins decreased 18 basis points, with ongoing pressure from category sales mix globally. This headwind was partially offset by a reduction in supply chain and freight costs relative to last year's heightened levels. Category mix was a notable headwind across geographies and formats. Walmart US general merchandise sales declined mid-single-digits, while food and consumables sales increased low-double-digits.

Headline inflation in food and consumables came down over 400 basis points from the start of Q1 to the end of the quarter, but prices remain high, and customers are being cautious with their spend in discretionary categories. And while we make attractive margins in food and consumables, they have a lower margin than general merchandise. We expect category mix to remain a gross margin headwind for the balance of FY 2024.

The higher-margin initiatives that are connected to our core omni-retail business including marketplace, advertising, and membership, continue to meaningfully outgrow the base. I'll discuss each of these.

First, marketplace and fulfillment services. We're growing our marketplace with new items and sellers and an improved experience. We've increased seller counts in the US by more than 40% year-over-year, and the number using Walmart Fulfillment Services has more than doubled. We're adding higher-profile in-demand brands that our customers are searching for, but not typically distributed at Walmart, elevating our profile as a digital shopping destination.

And in India, Flipkart's commerce platform continues to scale, growing first-time eCommerce customers and expanding its reach in Tier 2 and Tier 3 cities. Flipkart's eKart business now includes more than 35,000 Kirana partners as well as providing fulfillment services for Flipkart sellers and other third parties.

Moving to advertising, our global advertising business delivered strong growth of over 30% in Q1. In the US, Walmart Connect advertising sales increased nearly 40% as we experienced strong momentum in new advertisers, particularly from marketplace sellers. And the number of 3P sellers utilizing our ad capabilities has doubled over the past 12 months.

Sam's Club ad business, called Member Access Platform, grew double-digits with the number of active advertisers up more than 50% versus last year. Advertisers are responding to our recently-launched in-club sales attribution feature which provides advertisers with clear insights on the returns of digital ad spend both online and in clubs while enhancing member experience.

And in International, the advertising business continued to show strength lead by Flipkart Ads, which was up over 50%.

And lastly, membership. Sam's Club member counts have had a multiyear run of robust growth, with another record high achieved in Q1. Member counts have grown nearly 30% over the past three years, and we're increasingly attracting greater numbers of millennials and Gen Z.

We also like the trends we're seeing from Walmart+ members. Nearly 50% of our Walmart+ members are coming from the online pickup & delivery channel. Members spend more than non-members. They shop with us more frequently and the membership deepens engagement, helps enable personalization, and allows us to offer more services and to provide more offers on things that are important to our customers.

Turning back to the middle of the P&L, SG&A expenses leveraged 58 basis points aided by strong sales growth across the enterprise, a continued focus on managing costs, into moderating sales growth as inflation lessens, and lapping some COVID-related wage cost in the US last year.

Taking all this together, our operating income grew more than 17%. This is relative to sales growth of nearly 8% which resulted in operating margin expansion of 34 basis points, reinforcing the financial framework that we laid out at our Investor Day.

As signaled when we issued FY 2024 guidance in February, several below-the-line items impacted our Q1 earnings results, including higher net interest expense. Q1 net interest expense was more than \$550 million, and we issued \$5 billion of debt at favorable rates. Non-controlling interest was also higher in the quarter due in part to stronger results from Walmex.

Adjusted EPS of \$1.47 was better than we expected as sales outpaced our plan and cost leverage exceeded plan. GAAP EPS was \$0.62. The difference between adjusted and GAAP EPS reflects an \$0.85 impact from unrealized gains and losses on equity investments.

The team continued to do a good job managing inventory, and we ended the quarter down 7%, including a more than 9% decline in Walmart US. Managing costs and inventory are two of the key controllables as we navigate an uncertain macro environment. We're improving inventory efficiency and merchandise flow and addressing placement in order to better serve customers, improve store in-stock levels, while also mitigating future risks if demand softens.

Let me take a moment to discuss our returns, or specifically, return on investment, or ROI, which declined by 120 basis points this quarter.

We calculate ROI on a trailing 12-month basis. As such, the decline in Q1 is the result of nearly \$4.2 billion in charges we incurred in Q3 and Q4 last year related primarily to the opioid legal settlement framework and the separation of Flipkart and PhonePe. Together, these negatively impacted the first quarter ROI by about 140 basis points. These will again be a headwind in Q2 and to a lesser extent in Q3. As we lap these charges, we expect meaningful improvement in ROI in the back half of this year.

When you look beyond these unique items, our underlying operational ROI is steadily moving higher. At our Investor Day on April, I said that we want our ROI to go up every year, and I still believe that will be the case this year.

Let me briefly reference key segment highlights for Q1. For Walmart US, comp sales were strong, up 7.4%, reflecting higher store traffic trends as well as strong growth in store fulfilled pickup & delivery.

From a category perspective, comp sales were driven by strong growth in food and health and wellness partially offset by a decline in general merchandise sales. Unseasonably cooler spring weather negatively impacted sales in certainly seasonal hard line categories, including lawn and garden.

Gross margins decreased 41 basis points primarily due to ongoing pressure from category mix shifts. As mentioned previously, supply chain costs and transportation were lower as we lapped last year's elevated levels.

Inflation remained high, up low-double digits in food categories. It's important to remember that while year-over-year inflation started to moderate as the quarter progressed, this is largely due to lapping higher levels from last year. On a two-year stack basis, food inflation remains over 20% and continues to pressure discretionary wallets.

Share gains in grocery continued, including from higher-income households, as our strong price gaps resonate with customers who are increasingly prioritizing value and convenience. We're also seeing market share gains in the areas of general merchandise where we've invested to improve the customer experience such as entertainment and automotive.

In this environment, as customers manage household budgets more tightly and our biasing spending toward everyday essentials, we're reinforcing our value proposition across the merchandise offering, including seasonal event savings featuring high-quality owned brands and leaning into opening price-points. For the Easter holiday, we offered customers a curated Easter meal along with a traditional Easter basket for the same price as last year. Private brand penetration in grocery categories increased nearly 110 basis points in Q1 following a 160 basis point increase in Q4 and 130 basis point increase in Q3.

ECommerce sales were led by continued double-digit growth in store fulfilled pickup & delivery. Customers increasingly value convenience and speed of delivery. We have an advantage here as we leverage the proximity of our stores to fulfill and deliver digital orders to customer homes. In many cases, we can get orders delivered faster to customers while building a sustainable, omni-economic model.

Strong flow-through on higher sales contributed to SG&A expense leverage which offset gross profit pressure, resulting in strong operating income growth of 11.7% relative to comp sales growth of 7.4%.

Our International segment delivered an outstanding quarter with strong growth in both sales and profit, continuing the momentum built in the back half of last year. International grew both the top- and the bottom-line faster than the enterprise. Sales grew nearly 13% on a constant currency basis led by double-digit growth in China, Walmex, and Flipkart. Impressively, operating income grew more than three times faster than sales, up 41%, with each market delivering year-over-year improvement. The strong profit flow-through is particularly encouraging as the team has been delivering operating efficiencies on top of strong sales growth.

In China, sales increased 28% as the team executed well during the Chinese New Year season and also saw increased traffic as the Chinese economy reopens. Results were strong across formats and channels with continued member growth and higher member retention at Sam's Club, improved trends in hypermarkets, and more than 50% sales growth in eCommerce.

Walmex had another good quarter, with sales strength in Bodega stores, Sam's Clubs, and eCommerce. We continue to take advantage of opportunities to expand our physical footprint, opening more than 120 stores over the past 12 months, while also scaling our omni-channel capabilities. As customers' desire for convenience increases, the team has rolled out a 60-minute delivery option to 80% of Walmart Supercenter and Express stores in Mexico.

In India, Flipkart had strong top-line results and improved its contribution profit. The team continues to expand their products and services. As an example, Flipkart Travel added to its portfolio of offerings by launching bus reservation services during the quarter through its Cleartrip platform, and already is capable of offering 1 million bus connections to customers. And we continue to be pleased with PhonePe's great performance. During the quarter, we reached an important milestone with annualized total payment volume, or TPD, eclipsing the \$1 trillion level for the first time.

For Sam's Club, US comp sales were strong, up 7% in Q1. In addition to solid increases in both transaction and ticket, Sam's eCommerce sales were up 19% lead by strong growth in curbside. Sam's delivered another quarter of record member counts, and membership income growth was 6.3%.

Plus member penetration also hit an all-time high during the quarter. And it was terrific to celebrate the 40th birthday of Sam's Club during the quarter with member promotions and events. We saw incredible response from our existing and new members, including the largest quarterly membership sign-up on record.

Operating income declined slightly as a result of an inflation-related LIFO charge of \$48 million. Without that charge, operating income would have increased 10%.

At our Investment Community Meeting in April, I outlined our plan to grow operating income faster than sales centered on three strategic building blocks of our financial objectives. First, we're focused on driving organic sales growth from our omni-channel business model. It's clear our omni-model was resonating with customers across income demographics who are seeking out Walmart digitally and in stores, curbside, and via delivery, and we're growing mind share for our convenience which nearly matches our mind share for price. As we continue to scale digital capabilities in our markets around the world, we have an opportunity to drive significant growth in the top-line over the coming years.

The second component of our financial model is to diversify our earnings streams through improved product and business mix. To improve product mix, we're focused on increasing sales penetration in higher-margin categories like apparel and home through the expansion of our eCommerce marketplace assortment and an upgraded presentation and experience in our remodeled stores.

Our eCommerce assortment has grown to include over 200 million SKUs in apparel and nearly 60 million in-home categories. And our newest remodeled Supercenters take a differentiated approach to showcasing general merchandise with more brand shops, digital displays, mannequins, wider aisles, and updated fixtures. We're very encouraged by the early reads on customer response to these initiatives, and we plan to update 300 stores with these features this year.

In addition, as I mentioned earlier, we're making progress in improving our business mix as we scale a portfolio of highly-attractive growth initiatives that reinforce our core retail model and will directly reshape our eCommerce and enterprise profit trajectory. This set of initiatives drives stronger returns and includes advertising, data, and membership in many markets. Collectively, these initiatives generate operating margins that are appreciably higher than our core business and we expect will begin to positively influence operating profit growth relative to sales growth this year.

The third building block of the model includes improving returns by scaling proven high-return investments in our supply chain that drive operating leverage and improve incremental margins. We're investing capital to optimize our distribution and fulfillment nodes with automation that we expect will drive a significant improvement in unit economics in the coming years.

Our capital structure and cash flow generation are an advantage, and we're allocating capital responsibly with a bias toward increasing returns.

I'll reiterate what I said at our Investor Day. We like our strategic position. Over time, we expect 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 the outcome will be operating income growing faster than sales.

Turning to guidance, there continues to be a great deal of uncertainty looking out over the balance of this year as macro pressures on the consumer have gradually intensified. As such, we continue to maintain a prudent approach to our outlook while at the same time having a high level of confidence in what we can control.

It's also not our historic practice to always update guidance exiting Q1, and we don't necessarily want to establish precedent, but we think in this unique environment it's important to provide an ongoing framework as our views evolve.

We're raising our full year guidance to reflect Q1 performance and our expectations for Q2. We now expect net sales in constant currency to grow approximately 3.5%. Our expectations are for Walmart US and International to grow slightly faster than our prior view and for Sam's Club growth to be consistent with our February guidance.

We expect operating income in constant currency to increase approximately 4% to 4.5%, including an expected 100 basis point impact from LIFO charges. And we estimate adjusted EPS to be in a range of \$6.10 to \$6.20, including an expected \$0.14 impact from LIFO.

There are also a few changes below the line. Our recent debt issuance yielded a more favorable interest rate than estimated; and as such, our net interest expense is expected to grow \$600 million versus last year. NCI, or non-controlling interest, is expected to be closer to a \$0.20 drag to EPS year-over-year, including strength in Walmex. And our tax expectations have moved toward the upper end of our prior range at approximately 26.5%.

Looking at Q2, we're offering the following view. Net sales growth in constant currency of approximately 4%. Operating income in constant currency is expected to decline approximately 2% versus last year. Excluding the \$173 million benefit from Walmart Chile insurance proceeds last year, operating income growth in constant currency is expected to be flat to up slightly.

As you compare EPS versus the prior year, we're lapping the \$0.05 benefit from Chile insurance proceeds in other income and \$0.05 from JD's dividend in other gains and losses, resulting in a total of \$0.10 of comparable EPS headwinds. We expect adjusted EPS of \$1.63 to \$1.68 in Q2 this year. In closing, the year is off to a good start. We're positioning our business to succeed with an expanding omni-ecosystem that allows us to grow our top and bottom line throughout any economic environment.

If the consumer environment tightens further, we have a compelling value proposition with everyday low prices and a suite of conveniences to continue to gain wallet share. If the macro environment improves, we have the opportunity to sell more general merchandise and improve our margin mix through both our first-party stores in eCommerce and third-party marketplace businesses. And the transformation of our business mix toward higher-margin streams of value is underway, helping to protect our profits today and to drive better profit growth in the future. I look forward to seeing many of you at our Shareholders' Meeting activities next month here in Northwest Arkansas.

And with that, let me turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question comes from the line of Michael Lasser with UBS.

Michael Lasser

Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. Given the prospect of this inflation and the increasingly difficult traffic comparison and consumer environment that you're facing over the rest of the year, how much do you expect you will need to invest in price and other actions in order to maintain an overall stable comp in the US in the coming quarters, and how have you factored these investments into your updated guidance? And is it fair to think that given your commentary around doing better than the 2% to 2.5% prior expectation for the Walmart US comp, that it could be as high as 4% to 5% just given the momentum of that business? Thank you so much.

John R. Furner

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

A

Hey. Good morning, Michael. It's John Furner. I want to start first by thanking our entire team for delivering a strong quarter and investing in the future at the same time. It was great to see both of those things happen. First, let me just reiterate our purpose of the company is to help people save money and live better, and certainly in the last few quarters we have seen new shoppers, as John David mentioned. Many are higher-income and younger, and those shoppers are coming to us looking for value.

I think what's important for us as we look forward is, price is really important to the Walmart shopper. We are pleased with the price gaps that we see in the market. Those are consistent with where they have been the last few quarters. Certainly, some shifting that you heard about earlier from brands to private brands, and then most important right now is the flexibility that we offer consumers all across the country. We've seen quite a few customers shift to Pickup & Delivery. Our transaction count has been strong.

And as far as our plan, the rest of the year, of course we have built into the plan room for adjustments should the consumer change or the macro environment change. As we've mentioned, some softness in general merchandise, strength in food and consumables. We'll be able to manage things well should that continue. We certainly think weather and other factors have played into some of our mix shift, so we have a plan that will enable us to deliver value across the entire year.

C. Douglas McMillon

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

A

Michael, this is Doug. I'll just add to what John said. To remind everybody when we were together in Florida, we talked about this being a bit of a pivot where our investments are more focused on capital investments than income statement investments. And we'll continue to proceed to invest in the supply chain, things we talked about a few weeks ago, of course, but also would remind you about our remodel investments. So I think that when I think of the word investment, I think more about those things than I do necessarily income statement investments.

I think the other thing I would say is, it's a great time just to be a really good merchant. Like, in our stores, when I think about general merchandise, whether that's apparel or hardlines, we're focusing our store leadership and our store associates on standing tall in those areas. And because inventory is in a better spot than it was last

summer, for example, they can focus more on that rather than just dealing with the flow of inventory that was coming in. So we can impact mix and do other things to drive our business beyond just considering income statement investments.

Operator: Thank you. The next question is from the line of Kate McShane of Goldman Sachs.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thanks for taking our question. We wondered if we could ask around quarter-to-date trends for sales, and if the moderation from Q1 has continued? And can you remind us when the mix lap starts to get easier with consumables?

John David Rainey

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

A

Sure, Kate. This is John David. The second quarter, or rather the first quarter, the way that progressed is, as I noted in my remarks, we saw a moderation as we went through the quarter. February was stronger and then March and April were a bit of a tick down, and that follows some of the trends that we saw in other consumer behavior related to like SNAP benefits, tax refunds, and such.

This quarter has started off basically how the last quarter ended. So, nothing notable really to say about the shift that we've seen thus far. In terms of mix, mix is going to continue to be an impact on us this year. We began to – I think it was most pronounced in the mid-part of last year where we saw the effect of that and certainly as we got into the back half of the year and consumer pocketbooks were continuing to be stretched, we saw that shift in our business pretty pronounced from food to general merchandise.

The thing that I will say that's different this year is it's not just a shift to food and consumables. We've also seen in there in the first quarter a shift to health and wellness more, and part of that is related to these GLP-1 drugs that are to treat diabetes. What we're certainly seeing an uptick in that. For us, that comes at a lower margin, and so that has some impact on our business as well.

C. Douglas McMillon

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

A

I think, the persistent inflation in dry grocery and consumables is the biggest issue when you think about what we're up against and what we'll lap. We started to see inflation occur in the back half of 2021. It accelerated in the beginning of 2022 much faster than what we expected. Got to a higher level than what we expected.

Since then, you've seen general merchandise start to come back down, but dry grocery and consumables have held. And so as a customer, particularly if it's a customer living paycheck-to-paycheck, they now have a two-year stack that's a problem and eventually becomes a three-year stack that's a problem. So working with those suppliers that are in the prepared foods and consumables categories to get costs down more as fast as we possibly can, would help them drive unit volume, would help us with mix, and free up cash for customers to use for discretionary goods, and that's what we're focused on, have been focused on, and it's just taking longer in those categories than we want.

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

Oliver Chen

Analyst, TD Cowen



Hi. Thank you. The tech-enabled retail ecosystems continues to scale really impressively. What are some of the key priorities for advertising in marketplace and how they may intersect with artificial intelligence as well as clearly helping the margin mix?

And a follow-up for Judith. China continues to be a really impressive and sustained momentum as well as better margins. Just highlights about how that re-opening has gone relative to your expectations and any thoughts on India as well. Thank you.

John R. Furner

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



Hey, Oliver. It's John. First, really proud of the team for their performance in eCommerce in the first quarter. The 27% is something they should all feel great about. That's a combination of a few things. We noted the growth in Pickup & Delivery, the significant growth in marketplace sellers, and I think what's encouraging behind that number are the number of sellers who are using the services we offer like our fulfillment services which gets more of the assortment delivered in one or two days and we see a pretty significant increase in conversion rates when a seller is using fulfillment services and can deliver within two days. It also leads to growth in the advertising business.

Now this ability that the team has developed for sellers and suppliers to reach groups of customers that are targeted, it's really improving, and I think that's definitely driving the results there. So, those business units, the way we've described them, they do help overall mix. At the same time, we have some mix challenges as John David mentioned.

But within the mix challenges, first, which is a real positive, is the performance of the supply chain. The supply chain versus last year is in much better shape. The team is performing, so there's a lot of tailwind that's coming from our supply chain team, and they are ahead of our internal plan. So that's a real positive. And then as John David mentioned, there's the mix issue that we're seeing between food, consumables, and general merchandise and then growth of health and wellness at a lower margin.

Judith McKenna

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



Hi, Oliver. Just on that first point on the kind of tech-enabled ecosystem in marketplace, we're seeing some really strong progress on that internationally with a lot of leverage from US learning that we've been able to apply, particularly from a marketplace perspective where we're building out a global marketplace capability. We've just launched Walmart Fulfillment Services in a number of our markets, so that's really been enabling that on the ecosystem.

India is probably one of the better examples that we have, although Walmex is another great example of building out that ecosystem, but customer is the center of it, and using our digital capabilities to figure out how we serve them best in a simple and effective manner and you heard John David talk about the work that we're doing, for example, in travel where we can also cross-sell in India for products as well in our marketplace at the same time as selling tickets for people whether that be for air or for buses, which we've just launched.

And as far as China is concerned, they undoubtedly had a very strong quarter. It was one of the important drivers of the quarter performance for International, although we saw strength across-the-board from most of our markets.

In particular, as you commented, the reopening of Chinese New Year, for Chinese New Year made a profound effect on the quarter. And just to give you an idea of the scale of what happened there and the response of our teams, we had all of our product positioned for a Chinese New Year event-based in the cities where most people work.

What happened is actually everybody went home into their more rural areas, and that's too much pivot completely within a 10-day window and reallocate all of the inventory that we had around the country. It was a remarkable asset which just demonstrated their agility and resilience.

The Chinese economy is still patchy, undoubtedly consumer sentiment if you look externally it's better than it was. Not all the way to brag yet, pre-COVID, but both of our businesses there are benefiting from the reopening. So Sam's Club continues to do well. We have six new clubs opening this year. And then on Hypers, really focusing and doubling-down on how we think about fulfilled, store fulfilled for eCommerce. That eCommerce penetration remains at about 40%, which is a slight softening from where it was, but that's also partly seasonal because of the Chinese New Year time.

And on India, as Doug commented, we were there recently. Both Flipkart and PhonePe continue to impress us and meet our expectations. The build-out of the ecosystem for Flipkart I think we've talked about, but at PhonePe, it's really impressive to see their results as well, leveraging over the 1 trillion TPV mark, 36 million merchants online, and enabling those merchants to be able to grow their businesses as well was really impressive to see.

And what we're seeing in India is a build out of an ecosystem in its own right. Between our tech capabilities, between our sourcing capabilities, Flipkart, and PhonePe, it's becoming a mutually reinforcing flywheel of strength for that market and we're excited on what they're going to do in the future.

Operator: Thank you. Our next question is from the line of Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Good morning. I have a question for John David. The Q2 outlook, can you share if expectations has changed at all since you guided the full year? And relatedly, you talked about how the second half spread with EBIT for sales growth should be stronger than the first half. Can you talk about that shape or that spread change at all? Does it widen, or roughly stay the same?

John David Rainey

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

A

Sure, Simeon. Good to speak with you. You might recall on our last earnings call we gave a little bit of a head nod into Q2 performance because of some of the specific issues that occurred in Q2 last year, and we said that at the time we expected it to be roughly flat. Right now, we're saying the guidance is, and I'm speaking about operating income, down 2%. That's most impacted by again the insurance proceeds that we received last year.

Mix will continue to be an issue in Q2. We do see some improvement in some of our supply chain costs, freight costs that we're benefiting from, but that's the anomalous quarter for us as you think about this year. As we get

into the back half of the year and we see a more pronounced impact from some of the initiatives that we discussed at our Investor Day around these higher-margin, higher-growth areas, that will begin to have a more outsized impact. But relative to where we were in the last quarter, the expectation for that inflection has not changed. We still expect that to be about the same. It just so happens that frankly, we just outperformed on the operating income line in the first quarter relative to what we thought, so really strong performance there.

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

Kelly Bania

Analyst, BMO Capital Markets Corp.

Q

Good morning. Thanks for taking our questions. John David, you mentioned the 360 basis point mix shift between food and general merchandise, and you kind of touched on it a little bit, but should we expect that Q1 is the peak of that mix pressure, and should that moderate throughout the year? Just help us understand what's in your plan.

And then also on general merchandise, can you just help us understand what you're seeing in terms of units versus net pricing at this point? And also, the 300 stores that you're rolling out the new general merchandise initiative to, can you share the lift that you're seeing there?

John David Rainey

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

A

Sure. I'm writing down all these questions here, Kelly. So first on mix shift, I don't think it's fair to assume that the first quarter is necessarily going to be the peak. When we gave our full year guidance, you might recall that we talked about an additional incremental impact relative to the 330-ish basis points we had last year, and so I think we'll continue to see that through the year. A lot of that too depends upon consumer behavior which is difficult to predict at best right now, and our guidance assumes a rather cautious outlook there.

On units, if you just take the first quarter and you break it down by segment, both Sam's and US were, if you look at it like say real sales, they were basically flat. The International segment, I believe was up around 6%, 6.5% inflation-adjusted, so certainly we're seeing the impact of higher prices and the effect of consumer behavior on purchasing as it relates to units.

And then with respect to the stores that we're remodeling, before I answer this, I just want to caution that we're early on here. We've only done a couple of stores, but very excited about the results. We've seen a quite sizable increase, a couple percentage points in terms of uplift of sales.

Now, to be clear, that would be expected. In any store where you do a remodel, you're going to see that initial uptick. I think what we need to continue to monitor is how that levels out over time. But when – if you get a chance to go into one of these stores, you certainly recognize the difference that it is versus the rest of the network. And so, we're quite excited about this and the early response. How many stores have been done so far?

John R. Furner

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

A

Well, we have a couple dozen now that are around the country and what we did is pilot it here in Arkansas. Then we went to the Northeast and we put these now in a number of markets. And additionally what's encouraging beyond just the merchandising whether it's the great brands that you see in apparel or layouts, a lot of really exciting changes. What we see is success in a number of markets. So we think this has more broad appeal than

perhaps what we may have believed when we did the first one. So the program is going well and we see several hundred of these in construction and on the way this year.

C. Douglas McMillon

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

A

As it relates to the GM versus food and consumables mix, you might comment on what you're seeing in eCommerce general merchandise.

John David Rainey

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

A

Right.

C. Douglas McMillon

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

A

And then how you would answer the question for Walmart US specifically, how you view Q2 through Q4 as it relates to that mix.

John R. Furner

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

A

Yeah, there's definitely some interesting points when you dig into that, [ph] Doug (00:46:57). General merchandise is certainly stronger in eCommerce and strong in the marketplace. The trend, as John David said, for the quarter-to-date was just a couple weeks is very reflective of what was happening at the end of the first quarter. But where we have new items, new brands, we have a lot of examples of digitally native brands that we found somewhere in the media or social media that are doing well. That actually includes – is inclusive in food as well.

So the mix right now, as I said earlier, has some positives between supply chain, food has definitely grown faster along with consumables. The Health & Wellness growth is something that we didn't really expect going into the year. That has accelerated quite a bit over the last couple months.

And so as we look forward, some of the things that are harder to tell right now, the general merchandise impact has been going on for the last three quarters or so. But there are impacts from other things like tax refunds, the weather, some funds out there, so a little unclear how much of this is temporary in the month that we're in versus what we'll see the rest of the year. But I certainly expect that just the trends in food and consumables and the strength that we have in those as well as Health & Wellness will persist over the next few quarters.

I think that if anything, Health & Wellness, the impact that it's having on the mix and penetration could get larger based on the growth rates we're seeing in these drug types that John David mentioned.

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

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Good morning, and thanks for taking my question. I also wanted to go back to your US eCommerce acceleration during the quarter. What are you seeing from a category perspective? And then for the balance of the year, do you also expect to continue significant contribution to your US comp from eCommerce?

John R. Furer

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

A

s Hi, Rupesh. Definitely I'm excited about the quarter. The team has done a lot of work in the last year to improve overall customer experience. We measure something called CX scores which looks at our assortment, the number of sellers, the quality of the product display pages, and they are really in the details of the business. And the last quarter acceleration really across-the-board in eCommerce, Pickup & Delivery were very strong.

But we do look at this entire business as part of the total omni-channel offering and that's really important because when we talk about Pickup & Delivery at stores that does include eCommerce orders where a customer is ordering something in general merchandise, it just happened to be that the merchandise, the items were in the store, so in effect we shortened the last mile which helps not only speed and time but also helps the cost of the transaction.

Categories though, they are strong, we've been strong in food and consumables, really encouraged by accelerations in marketplace and categories like apparel, some acceleration in certain Home categories. That's great to see. I think that will continue as both the seller count and the item count continue to expand. So we're really looking at customer [ph] chain in (00:50:02) driving the business with surge to ensure that the customer gets whatever they want, when they want it from Walmart.

Operator: Our next question is from the line of Scott Mushkin with R5 Capital. Please proceed with your question.

Scott Mushkin

Analyst, R5 Capital LLC

Q

Yeah. Hey, guys. Thanks for taking my questions. So I'll just pile them all into one here. I guess, I was wondering, obviously you guys have brought out some brand partnerships and exclusive partnerships. How do you see that evolving store within a store? It seems like there's a lot of opportunity in certain categories like electronics and pet. That's the first one.

The second one is Walmart+ adding benefits, and do you see that as a driver of more high-income consumers? And three is just the grocery climate. You've been taking a lot of share from some of your bigger competitors in traditional grocery, and do you think they're ever going to respond? And that's it. Thanks. I jammed three in.

John R. Furer

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

A

Hey. Good morning, Scott. First, let me take all three of these. First, the brands. We really like the brand shops that we set at physically in stores that are in the remodel. I know you've seen a few, but the results are really encouraging. I think additionally in apparel, what I really like that the team did is, they brought everything together for the customer. So if you're in the men's shop, you'll see the brands at the front of the department, men's denim just behind it, shoes, accessories, all there together, so we're traditionally – we've broken these things up by category. Now, they're more holistic.

Pets is certainly exciting with some of the things that are coming. Then online, you will see now and you'll see a lot more in the future, a lot of branded shops inside the digital experience which enables brands to be able to put their entire assortment online, whether it's 1P that's online or sold in the store. The rest of the assortment there can be shopped by brand and I think these are going really well. The first dozen or so are pretty exciting.

Walmart+ continue to make progress. It's an important part of the offer. It's not the only thing that we're doing obviously, but it's an important part of the offer. We're encouraged by the growth of new members. And importantly, what we are really ensuring on these new members is that we are helping them see the entire path to get to all the benefits we offer.

The core offer of course is based in deliveries that are [ph] unlimited without costs (00:52:33) once you buy into the membership. That's the most important thing that we get right. We measure ourselves really carefully in something we call the perfect order which is exactly what you ordered on time and then we continue to work on things like substitutions.

And then, the last thing on grocery. We're focused on ensuring that our stores are in-stock each and every day. We feel better about the supply chain versus a year ago. That would include in-stock availability. It would also include the cost of supply chain. Stores I've been at recently from Virginia to New Mexico and Texas and Tennessee, I'm seeing much better execution in grocery and in-stock availability which does help the order fillers and order pickers which makes the Walmart+ experience much better. So, we'll really continue to focus on merchandising and pricing.

Just the other day I was with the team and saw this item called Bachan's barbecue sauce which is a digitally native Japanese flavored barbecue sauce that's just doing really well. So also I'm just personally encouraged by the way the merchants are looking at new ways to find new items, bring those to life and drive sales all across the country.

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

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

Hey, everybody. Good morning. My question is really on advertising. I think it's a relatively small quarter for this, but the 40% growth, obviously it's accelerating. It's very impressive. Can you elaborate on that and what you're doing to drive that? And then maybe more specifically for Sam's, the advertising opportunity there, seeing a lot of growth in sellers on map there, so curious the opportunity. Thank you.

John R. Furner

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

A

Yeah. Good morning. So first, I'll talk about Walmart US with advertising. There's been a considerable momentum really that started last year when we launched our second-place auction capability. So this is a – it's a two-sided market. But ultimately what we're trying to do is, connect our sellers, our suppliers to customers. And that can be at the one-to-one level. It can be at the cohort level. And so, the team has done a lot to really increase our capacity and capability to handle those transactions really well.

What's driving it of course over time will be stronger, bigger marketplace, so more marketplace sellers, and helping them connect to customers and then more assortment that's easier to find, but search also helps the advertising business grow. And I'll turn it over to Judith to talk about International.

Judith McKenna

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

A

Yeah. So, same story really which is, as the ecosystem builds out, there continues to be better strength in our advertising businesses everywhere. So the Flipkart growth is about 50% year-on-year, but Walmex equally had very strong growth at about 64% year-on-year. So those businesses continued to grow. We continued to learn and learn new skills about how to best serve the advertisers who want to come on to our platform. And I think that's one of the areas that we're seeing a lot of good global leverage and global learning as well to really help reinforce that.

Kathryn J. Mclay

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

A

And I'd just say, from the Sam's, we talk about – it's a little bit different from Sam's in that we don't have a marketplace. But what we are doing is stitching together. You have our e-com growth and then you need to also look at our Scan & Go growth, because both of those are indicative of a digitally enabled sale. And so, what we've been doing is working with our advertising community on how do you influence the sales, whether they are in-Club or offline, online or offline?

And you can nudge, you can encourage, you can advertise. And now we're giving those advertisers visibility to their in-Club sales and the online sales and stitching them together. They're seeing this lift on their return on advertising spend. So, it's a different model to what John and Judith have. But we're happy with the tools and capabilities we're building out and how that's resonating with our advertisers.

Operator: Our next question is from the line of Edward Kelly with Wells Fargo. Please proceed with your question. Mr. Kelly, please proceed with your question.

Edward Kelly

Analyst, Wells Fargo Securities LLC

Q

Yeah, hi. Thanks. Good morning. I wanted to ask you about the gross margin. As we think about gross margin and progression through the year, could you maybe give us a little bit more color on how some of the pieces progress? If we think about things like freight, markdowns, how that might influence the P&L in the back half?

And then, related to shrink, you haven't spoken about shrink. We have heard it in others. It seems like it's a big industry [ph] as well (00:57:17). Just kind of curious as to how that's impacting you. Thank you.

John R. Furner

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

A

Yeah, I'll take it. Good morning. So first, supply chain in the first quarter, we definitely felt a tailwind from supply chain versus prior periods and including the execution all across the business. It becomes more of an issue as we lap. Q2 last year and late Q1 last year would have been the peak of inventory as we work through a backlog of something like 100,000 containers that had been delayed at port. So, lapping those costs gets bigger as you look forward to the next quarter or so; and then as you get into the back half of the year, things tend to normalize a bit.

As far as markdowns, last year, we had markdown pressure throughout the entire year as we unloaded that freight and moved it from the ports to the distribution centers, to the stores and through the entire chain. So the markdown comparisons will moderate slightly as we go forward. But every year including this year, we always leave room for seasonal markdowns and at the end of each season we want to ensure that we are clean in

inventory so that we don't carry any liabilities forward. And what happens when that happens is it makes it harder to set the next season which backs things up. So we'll stay really focused on taking markdowns on time.

In fact, in some categories like apparel, we're pulling some markdowns forward within the quarter to take advantage of the traffic that we'll see over the Memorial Day holiday. So this is something that we pay a lot of attention to.

The last part of your question, can you repeat again?

Edward Kelly

Analyst, Wells Fargo Securities LLC

Q

Shrink.

John R. Furner

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

A

s Shrink. Sorry. There were several in there. On shrink, it is a factor. Mix, as I said a few moments ago, is affected by supply chain. It's affected by food, consumable, general merchandise mix and then Health & Wellness. So below that level there's a core shrink. And as we've said in the past it's been challenging for us, it's been challenging really for all of retail. So we're going to actively manage this issue. We always do. We always have. And we're going to continue to take the steps that are reasonable and required to make sure we're protecting our customers, protecting our associates, and protecting our assets and inventory.

We know a lot of communities have been affected by this but – and it's also important to note that retail can't solve this issue all on its own. It will take communities stepping up and enforcing the law to be able to bring this issue back under control.

Operator: The next question is from the line of Karen Short with Credit Suisse. Please proceed with your question.

Karen Short

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thanks very much. I had one clarification, and then one question. John David, I think in your remarks, you made a comment that alternative investments will protect profits, and that comment is a little different from the Analyst Day where I believe you said it would be additive, not subsidizing, I guess, four walls, for lack of a better word. So I wanted to clarify that.

But then bigger question I had is, could you maybe give a little color on what the spend pattern is with the higher-income demographics, and maybe you could quantify what you think their share is today versus – what your share is with them today versus prior to the pandemic?

John David Rainey

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

A

Certainly, Karen. To clarify my comments in the prepared remarks, all these first of all work together. Like, it's hard to just look at core retail and then separate out advertising, membership, fulfillment services. They are mutually reinforcing which is what makes them so attractive to us. And it's those very new businesses that we think will make our profits inflect in terms of the growth rate relative to sales going forward.

So to protect profits – please don't read too much into that. That's – we clearly are excited about this part of our business and this is the opportunity to have our profits grow faster than sales.

On the high-income cohort, I'll start there. Maybe John or others might want to jump in, but that was probably most pronounced, and by that I mean the shift that we saw. It was most pronounced in the second quarter last year. When we got to the third and the fourth quarter, there was a little more balance between the various income cohorts in terms of share gain, and that's what we saw in the most recent quarter as well, but I think the big story here is that it's around how our value proposition for convenience is resonating.

We've always been known for price, but I think the steps we've taken in the last three to five years to expand our eCommerce capabilities, to expand online pickup & delivery, you see that resonate with customers, and it doesn't matter what your monthly income is. Everybody values convenience the same.

So that's the big takeaway here and I think it's an important point as you think about the future of Walmart as we have these new shoppers coming to us, as we have higher income shoppers coming to shop for not only grocery but general merchandise, we want to retain those. We want to retain them with better experiences, better product offerings, and we're seeing that in the actions that we're taking today.

John R. Furner

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

A

And we spend a lot of time, of course, working on ensuring that we have flexible options for any customer, and in the case of the group that you asked about, we definitely see in the data that there's a higher usage of eCommerce and pickup & delivery. And then when you click into the things they're buying, you do see some differences.

So we do see within pickup & delivery higher purchase rates of categories like prime beef versus regular Cattleman's grade beef. So you see trade-ups within it, we see it in apparel, definitely seeing some growth in apparel and marketplace, and that is definitely being driven by some of our newer higher income customers. I'm really excited about the growth of not only transactions, but the number of digital users that we have on year-on-year which is accelerating.

Kathryn J. Mclay

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

A

And I'll just say, I think there's a couple of behavioral trends that we're keeping an eye on, so I do think our lower-price point units like say in patio sell quicker, and what we're seeing is people being very choiceful about where they spend their money but they are also shopping a lot later. So in the past, when we fit patio, it sold really quickly and now we're seeing people wait a little bit later into the season.

We're seeing that like with Mother's Day sales, so those demand profiles are looking a lot like they used to in 2018, 2019 versus pandemic spend, so people are buying a little later. We also saw kind of cooler weather which kind of changed the shape of how people are buying. But what we are seeing is that where you get this really fabulous quality value equation right, sales are up.

So we're looking at beef brisket the other day. Our beef brisket AUR is down 17%, our tonnage is up 29%. Our roses are an amazing value. Roses sales are up 60%, so where you get this great kind of value quality combination together, we're seeing members engage in spend and also have been looking at kind of convenience and traffic drivers. Hot baked pizzas in our cafes are up 29%, so there are areas where you see if you get that

quality equation, you can drive traffic into the club and we're just watching cautiously how they spend on those bigger ticket items and when those sales will come.

Operator: Our next question is from the line of Greg Melich with Evercore ISI. Please proceed with your questions.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Hi. Thanks. I wanted to follow-up on inflation, because it seemed to be a theme in – on your prepared comments. I guess what is the outlook when you talk to the merchants for inflation both in grocery and across the store, and what can Walmart do to sort of help alleviate that? And then is the industry being rational in terms of pricing and promotion?

John R. Furner

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

A

Yeah, as you look forward, it's important to compare what we've been up against the last couple years, and if you go all the way back into late 2021, that's when we started to see prices starting to rise, and then in 2022 February, March, and April it was quite acute, obviously and rose at a rate that we weren't expecting going into the year with the peak of inflation and in the in-year and July and August of last year, we saw high double-digits in categories like food and consumables.

And as you get into the period that we're in now, we're still seeing around high single-digits to double-digits in parts of dry grocery and other places, but when you add that up over the three years, it gets to be a really high number which is clearly driving part of the shift.

The way we think about value, first, we always, always comparing ourselves to the prices that are out in the market. We feel good about our price positioning. The second, we've been able to look at key holidays like Thanksgiving last year, Easter that we just went through, and we've been able to keep a number of items on either a Rollback program or base prices where customers can buy key important holiday meals at the same price that they bought them for the year before.

As you look forward, it's not easy to predict. Clearly, we're not happy with the inflation that we see in categories like dry grocery and those persist. As you get into the later part of the second quarter and third quarter, the in-year number may look lower because we'll be comparing against those high numbers last year, but it's important to keep in mind that the two-year stack at that point we still think will be in the mid-20s. So consumers are under a lot of stress. Therefore, we see the shift to private brand that John David mentioned in his earlier remarks, so more shift this year than the year before, and the year before, there was more of a shift in 2021, so that trend continues.

C. Douglas McMillon

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

A

We can be good mix managers within food, but across the box as well, for the US and around the world. General merchandise prices as they're coming down present an opportunity leading down, number one. And number two, finding items in categories that have above-average margins, hence shaving the margin off there to mix sales up as customers want to buy discretionary items we are in a position to be able to show them value through the rest of this year that they might not find elsewhere. We can be aggressive there.

Private brand share is another thing. You're seeing that number come up. We have more influence over what's happening with private brands than we do with branded product. And we do need some of these branded suppliers that are in dry grocery and consumables to get top line focused more than they have been for a while. It's a generalization. Not everybody is in the same place, but we're looking for those that want to be aggressive.

So if we can make a difference on dry grocery and consumables, lead with general merchandise, and then deal with what's happening in the fresh food categories, which are less consistent, more volatile, some are up, some are down relative to the dry grocery and consumables, that's the way we pull off a basket that generates the best value for our customers.

Operator: Thank you. Our last question will be from the line of Paul Lejuez with Citi. Please proceed with your question.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. Last year, 2022, you gave some numbers around SKU count, big increases in SKU count on marketplace throughout the year. I'm curious if you can give us an update on your total SKU count currently and how you expect that to change in 2023 and beyond. And if you can give any color, what percent of your marketplace customers can you also count as advertising and fulfillment services customers, and what the targets are there. Thanks.

John R. Fumer

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

A

Sure. Good growth in the marketplace in the US and maybe other comments from other markets, but a lot of growth last year, SKU count as I mentioned late – I think it was Q4 and Q1, both in the 400 million range. We expect that to grow probably not at the rate that it grew last year. We made a lot of progress in both SKU count and seller count and there is continued acceleration with a number of who are using fulfillment services and advertising.

What's important about both of those services is, let me start with fulfillment. It helps with the customer time to promise and helps customers know when they are going to receive their item. Customers want to get their delivery when they ordered it. They don't want it early. They don't want it late. They want it the day of, and when sellers move their assortment, their inventory into our fulfillment channels, then it's more certain for a customer that it's going to be next-day delivery or two-day delivery and that just helps with conversion rate.

So if you're a marketplace seller and you want to know how to drive business at Walmart, it's to list on the marketplace, put inventory in fulfillment services, and then Walmart Connect is just a great way for the seller to be able to find audiences – targeted audiences who are looking for products in categories like the ones that are offered. So it's really the three of those things that are put – that all come together to make the customer experience much greater, and the data supports everything I just described.

Judith McKenna

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

A

From an international perspective on marketplaces, we continue to see SKU growth across Mexico and Canada but both of those marketplaces are quite nascent in their development and provide a lot of opportunity for the future.

Walmex added 50% of SKUs in Q1 versus the same time in the previous year. Of course our most mature marketplace is in India which has hundreds of millions of products on there. It continues to find new ways to serve customers, but when they recently launched Flipkart fulfillment services, that connectivity between the advertising, the providing the services to help sellers wherever they are in India be able to get items to customers, and our business is working really well.

Again, we've only recently launched that and we're already seeing really good traction right across the country.

Operator: Thank you.

C. Douglas McMillon

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

This is Doug. I think I'll go ahead and wrap-up here. We ran a little over. I hope that's okay. I appreciate your questions. I'm grateful to work with such a strong team. The people that have been on this call but all those working our stores and clubs and throughout the company. I think you can see in our results that we've got a very strong and capable team and one that can adapt to environments. There have been a lot of pivots over the last few years in particular and they've done a terrific job of navigating all of that.

We feel strong about our position to grow the top line. We're positioned to serve customers and members how they want to be served. I think the eComm growth this quarter being up 26% is an example of that but if they want to come to stores and clubs, we're there. If they want to do a pickup order, we're there. If they want to have it delivered, we can do that.

We are positioned to grow profit faster than sales through productivity and through the mix of businesses carrying it in an additive way. And then on ROI, we'll be disciplined with capital but we are excited about our opportunities to invest and really grateful that you all came down to Florida so many of you and saw what we're doing there, and would just wrap-up by inviting you to come in a couple weeks. We'll show you NFC, we'll go to a store, we'll go to a club. We'll answer more of your questions. We feel like we're in a position to outperform and to continue to outperform because of the work that's been done to-date and our ability to manage business and pivot as we need to looking forward.

Thanks for your attention today.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.