# Walmart
# D.A. Davidson Post Earnings Call
# May 19, 2023

<u>**Presenters**</u>
**Steph Wissink - Senior Vice President, Investor Relations, Walmart**
**Michael Baker - Consumer Analyst, DA Davidson**
**John David Rainey, CFO Walmart**

**Operator**
Greetings. Welcome to the Post Q1 Earnings Release Hosted by D.A. Davidson. At this time, all participants will be in listen-only mode. If anyone should require operator assistance during the conference, please press star-zero from your telephone keypad. Please note this conference is being recorded.

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

**Steph Wissink**
Thank you. Welcome, everyone. We're going to begin with our safe harbor and then I'll pass the call over to Michael from DA Davidson to kick off the conversation.

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. I'll now turn the call over to Michael from DA Davidson.

**Michael Baker**
Great. Thank you, Stephanie. I'm Mike Baker, one of the consumer analysts at DA Davidson. And I just want to thank the team at Walmart for allowing me to host this call with their CFO, John David Rainey, and of course want to thank them for their transparency and commitment to communicating with investors. It's really great. And thanks for all the clients who have dialed in.

By way of format, so this will be a Q&A session led by me. We have about 40 minutes. I'm going to assume in this Q&A session that people on the call have listened to their earnings call yesterday. I hope that's right. If not, the transcript's available. The point of me saying that is I'm going to attempt ask questions that will either bring up more details or incremental information from what we heard yesterday, just--not just reiterate what we heard yesterday.

Let me also say, if anyone has any problems during the call, email me at mbaker@dadco.com. As I've been talking here, I've seen a couple calls come in, which I can't answer right now. But I suspect if anyone's having trouble dialing in, you're trying to reach me. So, just email me at mbaker@dadco.com and I'll help.

Anyway, so with that, I'm going to start with a very big picture question for John David, very open-ended. And I'm going to ask you, in 60 seconds or less, what you thought the key messages from yesterday's call were, and then we'll get into some of the nitty-gritty.

**John David Rainey**
Mike, first of all, thanks for hosting this call. We're looking forward to being able to provide a little bit more color.

To me, the big take away was that our value proposition is resonating and, importantly, tying that back to our Investor Day that we had just last month. We talked about growing profits faster than the rate of revenue, and we demonstrated that right out of the gate. Not to say that every quarter's going to have the same result, but I was very pleased to be able to show that tie back to what our long-range plan is there.

E-commerce is the other one that stands out to me. In a period where others have had different results or were challenges there, you can continue to see that our omnichannel model is resonating and working, and strong results across the--that part of our business there.

Maybe one last thing because I'm thinking I got 15 seconds left to get in here, international was the other one. And this is one that we've had a very intentional strategy for a number of years now to create a portfolio, to execute on this part of our business, make it additive. And those results were demonstrated with our earnings there yesterday of growing the bottom line there over 40%, just tremendous progress there, and really pleased about that part of our business.

**Michael Baker**
All make sense, and I'm sure we'll get--I know we'll get into each of those as we go through. So, I'm just going to jump in with a couple of maybe more specific questions.

One of the interesting things that's been happening is we've seen this dynamic of high-end customers trading into Walmart. You said on the call yesterday that you really started to see that in the second quarter of last year. So, that's now been going on for about three quarters.

I guess the follow-up question I'd have to that is what are you seeing in terms of repeat rates from this cohort? You must have data showing, okay, people started trading down to you, you know, about a year ago. Are you retaining those customers? And what can you do to make sure you do retain those customers, if and when the economy improves?

**John David Rainey**
We're seeing good retention across all income cohorts. When we go back into last year, the first--or I should say the second quarter was one where we probably skewed more towards the high income cohort in terms of share gain. That's been more balanced in the quarters since then, but really pleased around what we're seeing here. A number we look at internally is weekly average customers, and that has just continued to increase quarter after quarter at significant growth rates going back even to the 2019 timeframe. So, very pleased about that.

But fundamentally, to answer your question, the value proposition that we provide our customers today is very different than five years ago or even two years ago. It's not just based on value. It's based on value and convenience. And that's a quality that appeals to all of us, irrespective of our income levels.

And so, as we continue to offer online pickup and delivery and provide more merchandise through our third-party Marketplace, and even the number or the types of brands that we're carrying now, things like Levi's and Casper, Dyson, Callaway Golf even, these are brands that certainly are attractive to that higher income cohort. So, as we continue to build out our e-commerce capabilities, build out our Marketplace as well as improve the physical experience in our brick and mortar stores, I think we've got a good chance to retain a lot of these higher income customers.

**Michael Baker**
Great. Yeah, that makes sense. And then just to be clear there, you--when you say you're retaining those higher income customers, that's based on data, I presume. You know through credit card data or whatever who your customer is, and so you're actually seeing in the data that retention from higher-end customers.

**John David Rainey**
Yeah. Yes. But to be fair here, I mean, we're still in a period of economic challenges. I think the report card would--will be more informative when we get to a time of economic prosperity and people are feeling more flush in their ability to spend money, and we will see what we do then. And again, we certainly don't expect to retain every customer, but we feel very confident in our ability to retain a lot more than we have historically.

**Michael Baker**
Yeah. Yeah, makes sense. Okay. Now, one of the things that came out in my follow-up call with you was the trend. You sort of alluded to it on the call, but I think it there was a little bit more detail that I'd like to flesh out, and that's the trend by month.

And we know that, you know, February was strong versus March and April. But I think one of the things that we learned is that the big falloff was really February to March. April was relatively stable with March. But anyway, April and March, you know, pretty weak, a lot of that due to lower tax refunds. One of the things that I'm wondering, and we saw that, by the way, in the full market today, that tax refund issue is now behind us, right? That's a big issue in March and April. Now that's behind us and weather, you know, presumably is going to improve, does that give some hope that sales can improve from here?

**John David Rainey**
The way that you characterized that, first of all, is correct. There was a sharper drop off from February to March, a drop off from March to April but not nearly as significant. And so, I think there are two things that perhaps contributed to that.

One is tax refunds. Earlier in the quarter, tax refunds were actually showing year-over-year increases. Those flipped about midway through the quarter. And so, that obviously has an effect on our results as that windfall seems--tends to be spent pretty quickly.

The other area there is related to the cost of living increase with Social Security benefits. And when that came in January and February, we saw a lot of that spent as well. That has--obviously, the effect of that has tapered off. And then working the other way, SNAP benefits, which declined there in March, we saw the impact of that as well. And so, all of that affected our business.

But I would also say, in the most recent month, weather has had an impact. And I'm looking out the window here in Bentonville, Arkansas and it's pouring down rain. Some--I mention that because it's difficult to really figure out how much of the effect on consumer spending is just due to bad weather in certain areas versus maybe something that is more systemic around slowing in consumer spending.

**Michael Baker**
Well, yeah. And so, to follow up on that, and I appreciate, you know, you guys maybe mentioning the weather but not using it as an excuse per se. But I am curious, any way to quantify how much you think weather really did impact the quarter? I think it's pretty obvious. Everyone--you know, we've heard that from many, many retailers in their seasonal business. But any quantification of that?

**John David Rainey**
To the extent that we were to quantify that, I don't think it rises to a level to say that it was a material impact on the quarter. It was more material in the last month of the quarter and in the month that we're in now. And so, we need to wait.

And we look at this regionally. We--obviously, not every place is impacted the same by weather. And so, we get some different results. But think we'll feel more confident about this when we get into the summer and maybe more seasonal weather then in terms of what we've experienced historically, but not--probably not large enough to call out for the quarter.

**Michael Baker**
Okay, fair enough. One more question on the monthly cadence, if you will. If March and April more, you know, weak and seemingly pretty weak, yet you still beat the quarter, February must of been massive. So, I guess--.

**John David Rainey**
--Well, so I'd characterize that a little bit differently there. I wouldn't say that March and April were weak. They were not as strong as February. And so, if you look at our headline revenue number of growing about 7.5%, February was higher than that. And March and April were--you can deduce were probably a little bit lower than that, but not a whole lot lower.

And so, you know, it was still a good quarter all the way through the month. But it's not--I don't want to paint a picture where things fell off a cliff. That is absolutely not the case. We like the trends that we're seeing. There's concern, obviously, around consumer health, and we need to be cautious around that. But as I said in my prepared remarks, the consumer spending has been pretty resilient at a headline level.

**Michael Baker**
Okay. That is a great clarification. And so, in a way, you know, it brings me just to a follow-up to that. It seems to me, correct me if I'm wrong because I was wrong on that, that you are little bit more cautious today on the consumer then you were, you know, when you gave the guidance originally on the fourth quarter call, even though your sales guidance has gone up, but, you know, that's because of what you saw already, not necessarily, you know, what you're expecting. I guess the quick question is, you know, are you more or less or the same concerned or not concerned about the consumer today as you were three months ago?

**John David Rainey**
Yeah, I appreciate the way that you framed that. And I would say, on the margin, slightly more cautious, but let me give some context to that. Since three months ago, three of the largest four bank failures in history have occurred, and, you know, there's been the realization of some trends that we expected. I mean, if you go back 90 days ago, everyone was saying that we're going to get into a recession at some point in the future. And I think that was generally sort of the consensus opinion.

Well, in order for that to happen, trends need to deteriorate. And we're seeing some of those things happen, things like credit delinquencies increasing and things of that nature. And so, it's not as if the economic data that we're getting today is worse than what we might have expected three months ago, but it's the realization of those trends, like bank failures, that make it feel a little bit--make us feel a little bit more cautious. But, again, I would say this is on the margin.

**Michael Baker**
Okay. Okay, that's great. The--all right, let me switch gears here little bit and talk about your merchandise mix. I thought--and a really interesting comment, so I'm happy to be able to follow up with you here on it, is--I think it was what Doug said about within--the mix within the mix, that some of these higher-end customers who are coming in are actually buying, you know, maybe more towards the better or best, you know, part of the continuum rather than good, and so in that sense can elevate margin within a category. In other--I think he cited higher-end beef. How helpful can that be? Can that--so, we know mix isn't negative, but maybe the mix within the mix can be a positive such that it offsets that negative, or is that--or is it just not that prevalent to really matter?

**John David Rainey**
It is. It is very helpful. I don't want to discount that. But it's not at this point enough to offset the overall change in mix in terms of what we're seeing with our business just because of the pressure on consumer wallets, but certainly something that we're very focused on.

You know, we--Doug even talked about yesterday going on the offense in certain areas. And maybe I can give a little bit more color to that, because it doesn't mean that, you know, we're going to be like super aggressive in lowering prices across the board.

What that means is, in period where we've been very concerned around inventory, there are categories where we should be aggressive. You know, if a merchant believes in their ability to sell a product, then let's go buy as much of that product as we can and put it out in front of the customer and sell it at a price that we think is going to drive the appropriate margin mix for our business to have that drop to the bottom line. So, that's really more the framing of that and kind of what we were talking about when we mentioned that.

**Michael Baker**
Well, okay. And so, that--you've anticipated a question that I have maybe two or three down the list here that I wrote out, so I'll ask it again with maybe a little bit more detail.

Yeah, I thought that comment from Doug was very interesting about playing offense, I think it was Doug, areas of playing offense. So yeah, I would have, you know, if I had asked a question on the call, I would have asked, what areas? Can you tell us where you're playing offense, versus where you're playing defense?

**John David Rainey**
Sure, I'll just give some context. I guess I've been here about a year now, but I still feel relatively new. But one of my big learnings for being here is like one of the things that makes Walmart great is we're really good at retail, we're really good at being great merchants. And this is that category that really he's addressing in his comments there. But there are a lot of things that we can do, and we refer to it sometimes as moments that matter.

So think about Mother's Day, or celebrations, gatherings like that. We just made some -- we just talked about earlier (inaudible) made some small tweaks to our Mother's Day offering, and we saw an appreciable increase in level of conversion of our digital channels versus what we did last year. And that was 2x the conversion that we typically see on just an average day. And so that's where, like, we can be aggressive and not need to be sort of too cautious or on our backfoot just because of what we've experienced over the last three or four quarters. We still need to lean into these areas that we're frankly quite good at and execute on that. So that's what he's referring to.

**Michael Baker**
Okay, so moments that matter, celebrations, holidays, that's where you think you still have an opportunity? Okay, interesting. Okay, here's another question. I'm surprised no one asked it on the call yesterday. So I'll ask it. If you could talk about the promotional activity. Are you seeing anything unexpected? You know, other retail, everyone's seeing a slowdown in March, in April, you're not alone. Is that causing more promotions on the retail landscape than you would have thought three months ago? I think everyone appreciates that. It's definitely more promotional this year than it was -- you know, when we have the big supply and demand imbalance during COVID. So, you know, more promotional than the COVID year. Yeah, everyone expected that. I guess what I'm asking is, is it more promotional today than you expected three months ago? Or did retailers bought conservatively enough so that they don't have to, you know, mark everything down? I guess Footlocker notwithstanding today?

**John David Rainey**
Yeah. So I would just say I'm very clear. No, it's not. It's not -- the promotional environment is not different than what we expected when we laid out our full year guidance. This feels a little bit more business as usual. Admittedly, I don't think I've worked in a quarter that's been business as usual here, but like from talking to the team, it is very consistent with what we expected.

**Michael Baker**
So the kind of follow up on that is -- lot of retailers seeing weak results and missing (ph) guiding down. One might expect that it would become more promotional. So why hasn't that happened? Is it because, you know, coming off of the inventory glut last year, have retailers just bought conservatively enough and sort of anticipated weakness? And I'm just, again, you know, with everyone missing, one would think it would start to get a little bit more promotional.

**John David Rainey**
I do think we're in a dramatically better position from an inventory perspective. Everyone got burned last year by being too long on inventory. I think people this year are erring on the side of being short on inventory, if that's going to be the case, being more conservative with your outlook. And so that probably have some impact on the promotional environment as well. It's obviously different by category. There are going to be certain areas where that's not the case.

Certainly, if you look at GM, areas like apparel continue to stand out as one where you're seeing a real drop off in demand relative to the rest of the business, certainly compared to historical periods. And so -- but as a generally speaking, I wouldn't say the promotional environment is different than what we expected.

**Michael Baker**
Okay, helpful. Thank you. The -- and of course, promotional activity leads to a question on gross margins. And the next few questions would be more about your guidance and outlook and just trying to understand that a little bit more. You're still playing on gross margins being up for the full year after being down 18 basis points in the first quarter. And I think you said the mix headwind is continuing into the second quarter. So what gets margins back on track in the back half of the year? I think the math suggests it'll have to be up at least, you know, 20-ish basis points if not higher in the back half of the year to be up for the full year.

**John David Rainey.**
Sure. Well, we do expect business mix will continue -- or not, I'm sorry category for our sales mix will continue to be an issue as we've seen the percentage of our business ship more to grocery and pharmacy and health as well as -- and moving away from general merchandise. But we'll begin to lap some of that from a year over year perspective, which will make it a little bit easier as we get into the back half of the year.

We'll also see some of the supply chain costs that we incurred last year. We don't expect to repeat. But I think probably most importantly, and the answer to this question is business mix. We -- and hopefully you're all able to glean this out of our results in the first quarter. But when you look at what we're doing in advertising, what we're doing in fulfillment services, and our eCommerce business, we continue to grow some of these parts of our business that are higher margin. And the effect of that on our business overall, at least our expectations right now, is that gross margins will increase modestly. But again, we're one quarter into the year. That's the best guess that we have right now given everything that we see, but we still feel confident in that number.

**Michael Baker**
Okay, makes sense. You know, I'm going to jump around to a question on the alternative businesses. I quantify it at $5 billion in sales. And I'll tell you how I get there. And so, A, tell me if I'm wrong or not, but if that's right, it's still so small. But -- so at about 1% of sales, it's enough to move the needle, I suppose. I guess where should it go over the next three years? And here's the math, you put up a slide as your annual stay saying that it was -- it had grown $3 billion at a 40% CAGR since 2012 -- since 2020. So you can back into the math that that means I think it went, if my memory serves, it went from 2 billion to 5 billion, would be a 40% CAGR. So correct me if my math is wrong, but then where can this go to over the next few years?

**John David Rainey**

Well, you're right. We gave people the numbers to be able to do a total number very similar to what you described. We have -- you know, we're pretty excited about this part of our business, we think that just in the US alone, we can -- just take advertising as one aspect of these initiatives, we can be one of the top 10 advertisers in terms of revenue. But that's just one piece of it.

When we look at our marketplace right now, we see continued increases and engagement among those sellers that are availing themselves of Walmart fulfillment services. And so another example, data ventures is one -- another high margin business, very high margin business, that the more people engage in the suite of alternatives that we have, the higher growth that we get, and that affects the overall margin profile of this business. So, you know, this is the journey that we're on, we're very excited about it. And we think it's got some pretty promising opportunities as we look out, at least financially into the future.

**Michael Baker**
Well, all I can say is, thank God, my math is right. I was nervous about potentially exposing my lack of math ability to the world, but, phew, glad I got that right. Backup to the outlook, I think it was sort of asked on the call, but I just want to flesh it out a little bit more. You know, again, fun with math, I won't go through all the numbers, but based on what you reported in the first quarter, in the second quarter guidance, we can all do some math as to what that means for the back half. And basically, it's looking for far less EBIT growth in the back half of the year than you certainly saw in the first quarter and then what you saw, you know, in the what you're expecting in the second quarter.

Now, one of the answers of the call was that you don't expect the strength in China to continue. But frankly, we do the math that that was probably less than half of the EBIT dollar growth in the first quarter. So even if you adjust for that, you're still looking for a much more cautious second half. I guess if you could talk about why we should expect the second half EBIT growth to be so much worse, again, even adjusting for China.

**John David Rainey**
Well, there it's further out to the year, there's obviously less confidence the further that you go out in any forecasts. And so we're probably a little bit more guarded as it relates to the back half of the year. We'd love to be able to outperform those numbers, but mix (ph) will continue to be an issue. Health and wellness is one, Michael, that, frankly, when we look at the impact on our results probably didn't get as much focus as what it deserved.

And specifically, what I'm talking about there is with respect to the GLP-1 drugs, the -- you'd be -- choose my words carefully here, that the year over year growth in sales of these was pretty mind blowing, which, you know, is rather intuitive when you think about how that has come on the scene. But because of the nature of the margins on generic versus branded drugs for us for this year -- this could change next year, but for this year, that's a lower margin revenue stream for us, the GLP-1 drugs. And we saw strong results there on the top line in the first quarter, and we would expect that to continue for the year. Could even go up from there. America may get skinny. And so, you know, we'll see what the effect of that is, but that has some impact on the margin as well.

**Michael Baker**
Can I ask a couple follow up questions on that? Because it wasn't treating all that sort of came out of nowhere. And by the way, by way of advertisement, my colleague and I, Linda Bolton Weiser, we're doing a call with a weight loss expert or a drug expert on this topic on Monday. But anyway, by way of advertising, sorry about that.

So it hurts -- it's a low (ph) margin business, but I presume it's accretive to margins, right? You are making dollars on that? And it's a helpful sale. Correct me if I'm wrong on that. And then I guess when did this -- is this new this quarter? Is this really just exploding this quarter?

**John David Rainey**
It was, yeah, for the most part, it was new this quarter. And yes, it is accretive cause we make money on that. But not the same margins that we make in other parts for health and wellness business. Again, these are signed on multiyear contracts in many cases, and so we look forward to the ability to get something that better reflects the amount of sales volume that we're generating.

**Michael Baker**
Got it. All right, if -- I got one more quick one on that. Can that have any effect on grocery sales? Like if people are going to eat less, are they buying less food?

**John David Rainey**
Well, it would follow, right, but by the same extension, it might also have some effect on the sale of pants.

**Michael Baker**
Right.

**John David Rainey**
People's waist size is going down. So yeah, but it's too early to see the full effect of that. But certainly, if you read about this, and you understand how it suppresses appetite, then it would stand to follow people are gonna be buying less.

**Michael Baker**
Yep. Yeah, that's a good point about the changes in apparel. Okay, you know, a couple questions on prices and inflation, if I can get through here. We get the, you know, you're saying that the food inflation has been sticky. But the fact is, when you look at the CPI data, that the food at home data is coming down pretty quickly. Frankly, further than what you're -- quicker

than what you're seeing in your inflationary data, I believe. Is there a lag effect? Should we expect that food inflation to start to come down more just based on what's in the CPI data?

**John David Rainey**
You know, I'm not sure to be honest, Michael. You know, there's when we look at our food prices, they've been persistently high, but it's mostly in the category of dry grocery, much more so than produce and other areas. But that this is, if I just take the category of grocery broadly, it's different. Like if you look at milk versus egg versus beef versus some other kind of item, some of those may be going up, some may be going down. And so it may also have something to do with the mix of what people are buying in restaurants versus stores. So tough for me to answer that. I, you know, and I certainly don't follow the restaurant business as closely as I do the rest of retail.

**Michael Baker**
Fair enough. Okay. One more -- well, one or two more on pricing inflation. Doug made the comment that you're more -- that your investments are more focused on capital than income statement right now. I take that, correct me if I'm wrong, but I take that to mean a little bit less price investment in particular, because you said a few times that you are, you know, pleased with your price gaps. So, A, correct me if I'm wrong on that, but, B square that comment with two other comments that seemed to say you gotta be more aggressive on price. You said you would lead pricing down on general merchandise if you saw some deflation. And then I think it was Doug also said that you're looking for areas to shave margin, which to me means, you know, cut price. So square all those comments, if you could,

**John David Rainey**
Happy to reconcile that. What Doug's referring to is really more of an historical perspective. If you were to go back five, six, seven years ago, there was a big catch up that we needed to make in price. And I should say, an investment that we needed to make. We were not where we needed to be broadly in terms of price gaps. We like where we are today in price gaps, but that doesn't mean that in select categories we won't go on the offense and try to price, to drive more share, drive more volume, but what he's referring to in terms of is characterization of investments.

This is not as if in our tiny horizon we see some big need to have a one-time correction with an investment in the P&L.

**Michael Baker**
Okay. That does square it. Okay. Okay. Very helpful. And then one more on pricing, or inflation, I should say you. You got to 100 basis points of LIFO, of a LIFO drag. Other retailers that we talked to also thought there'd be some LIFO pressure. And while there is, others have said, it's not as bad as feared. How is your LIFO situation shaping up relative to that original guidance? You didn't change the guidance, so what does that tell us?

**John David Rainey**

Its margin. For the first quarter, it was marginally less than what we had planned for the year. You are correct in the assumptions that you're making. We'll watch it through the second quarter. And likely, if it doesn't materialize to the extent that we expect in the second quarter, we may reduce that guidance for the year, at that point in time, but there's still three quarters of the year left. This heavily dependent upon what's going on with inflation as well as inventory. And so it's one of these things that very difficult to forecast. So we still hold to the number that we put out there, but if I were to make a bet right now, I'd probably bet on the under.

**Michael Baker**

All right. We'll take it, potential source of margin upside. My words, not necessarily yours. But all right, that's good trend. All right. Now, I wanted to ask you in the few minutes we have left a little bit about work capital, capital allocation, cash flow, etcetera. Quickly, talk to us about your inventory plans. The gap between sales and inventory growth was remarkable this quarter. But if you go back over three years, inventory is still growing faster than sales. Does that mean--so are you under inventoried? Are you over inventoried? Do you need to continue to invest in inventory? I think you said -- you've told me at least, that you have a billion dollar working capital opportunity in the next few years. Where does that come from?

**John David Rainey**

Sure. For the environment that we're in, we like our inventory level. I think there's opportunity there. Longer term, I'll address that in a second. Just with working capital, when we look at (INAUDIBLE), payables, the terms on those, and compared to historical levels, I think we can be a little more aggressive than where we are. During the pandemic, we relaxed some of the payment terms. So the team has got a big focus on that, as every dollar of capital is precious, and we want to make sure that we're being as efficient as we possibly can.

So I think the trend directionally over the next--year may be a little bit soon to see some results, but we'll call it 18 to 24 months, is certainly to see some improvements there that make us more efficient with our use of cash. With respect to inventory, the opportunity there I think is more around supply chain. And you, Michael, we spent some time together when we were down in Florida going through seeing some of the supply chain automation that we have. And so you saw that, but I view this in kind of three steps. The first step is we'll call it level one benefits of automation. It's really around just creating (INAUDIBLE), getting additional headroom. And putting twice the amount of inventory in the same amount of space because we're more efficient.

The second phase is really what we do with software, and that's reducing allocation errors, which can result in less markdowns, providing better, more customized pallets. Like you, you were able to see the pallet work that was done, where you can take a pallet from a distribution center and deliver it to a store and have it delivered to a particular aisle in a store where someone doesn't have to travel around the store to put all those goods on the shelf. So that's a big opportunity. And then I think the third phase is really sort of using our data and technology to better predict demand to make sure that we're putting those inventories or putting that inventory in the locations where we can anticipate customer demand. So we know that if there's a certain amount of diaper demand in Topeka, Kansas, we can better plan for that versus being reactive. So longer term, the net of that is it probably allows us to be a little bit more efficient on the inventory level.

**Michael Baker**
Interesting. Okay. Yeah. And I understand. By the way, my colleague Matt Somerville, who covers Symbotic, was in the facility in Brookville yesterday, and it sounds like you've turned on the brake pack recently. So that should help. I think when we were all down there it was still behind closed doors. So congratulations on that. All right. We got a few more minutes, and I got a bunch more questions. I don't think I'm going to get to them all, so I'm going to have to pick and choose. All right. Let me ask you a tough one here. You got an interesting comment on buybacks, saying that where the multiple is now, that means it's less of a buy. Well, if it's less of a buy for you, what does that signal for investors?

**John David Rainey**
Yeah. Let me give some color to that comment. First start with the statement, to be very clear, I'm a buyer of Walmart stock. I am a (INAUDIBLE) here in terms of how I'm thinking about our future. I was answering the question in context of the amount of stock that we bought back last year. And as you know, there's several reasons to buy back stock, one of which is for EPS accretion. And if you just do the simple math, given our multiple has increased a little bit, the relative attractiveness versus last year of earnings accretion is less than what it was. And so that is one thing that goes into the equation. But the other more important, is just overall capital needs. And I referred to yesterday, the fact that we have to pay the opioid settlement that we took a charge for last year. And so that's a pretty significant amount of capital as well.

We're going to be opportunistic, and certainly, as we see opportunities in the market, dislocation, our stock will be aggressive buyers of that, but we're constantly going to be buying back stock. This is not something that we're just going to hit pause on. I am very bullish on our future. I think right now is a great opportunity. And so I don't view my comments, excuse me, as inconsistent with the bullish sentiment that I have.

**Michael Baker**
Appreciate that, and thanks for answering that. All right. I'm going to try to fire off two more here. One, real quick, the spring question. I'm sure you've answered a million times the last few days, but we think about Target's numbers, this is dragging their margin down by 100 basis points over the last two years. It doesn't sound like you're seeing that kind of impact, because you haven't really called it out as such, but I'm wondering if you are willing to quantify the increase or shrink or at least put it in context of 100 basis points over the last few years?

**John David Rainey**

Well, I'm not going to quantify it, but let me give a little bit of color here. But first, I do, I appreciate the question, because this is an issue for all retailers, including Walmart. We obviously, are most concerned with protecting our associates and customers, but also the merchandise. But it's also not an issue that retailers alone can solve. We need engagement from the law enforcement in the local communities. As we look at shrink across the board, this is not something that just in every city has increased. There's a clear tie to the local rules and policies and how those are enforced in certain cities. And so I think that's important to understand.

As I think about the impact on us versus other retailers, stands to reason, if you just read the press about some of this organized aspect of this, is people are reselling this online. Well, you're more likely to resell general merchandise than you are a head of broccoli. And so you could argue that the more you skew towards general merchandise, perhaps maybe it's worse for you, but no one is immune to this. Every retailer is facing this.

**Michael Baker**
Makes sense. Great. Well, let me ask. I think we scheduled this for 40 minutes, so we're getting close to the end here. Let's end on a high note. Let's talk about your ecommerce business. For years, Walmart got a late start. We could go back 10 years ago, 10 to 15 years ago, but not only have you caught up, you're now beating others, as you said at the beginning. 27% growth, outpace everyone. Is that mostly the marketplace? Or one of the big initiatives last few years ago was merging your, quote unquote, red app with the blue app to get more general merchandise attachments with consumable sales. Is that happening? Just a little bit more detail on where that 27% growth is coming from?

**John David Rainey**
Sure. That's the suite of businesses that support our ecommerce business. So we would include fulfillment services and things like that in there as well. But they all work together. It's tough to be really strong in one of these areas and weak in another because they're self-reinforcing. But we've made dramatic improvements, even just in the last year since I've been here, in the customer experience around ecommerce. We have merged those apps. We recently, I think it was last month or the month before, had a new customer experience with our mobile app. And we're seeing really good response to that. But I think what is, our value proposition is resonating. And you see that, online pickup and delivery is a great example of that, but the other part is the focus that the team has on this.

So we look at things like perfect order, meaning from the time the customer came to us and went through the entire shopping experience, did they get what they wanted? Did they have it delivered on time? Was there a cancellation? So our perfect order scores are going up. Our cancellation rates are going down. We're getting much better at delivering packages with one delivery versus multiple deliveries, which affects our bottom line, because it's very costly to deliver a second or third package. And so I referred to it yesterday in an interview, is we're finding our stride here. And you could argue, I think fairly, that we were a little bit later to the party, but this area of our business is one where our reach, our breadth really matter. And the fact that we are within 90%--yeah, we're within 10 miles of 90% of America. We have some huge advantages in this space. Last mile is the most difficult piece, or the most expensive piece, I should say, of delivery when you think about ecommerce, and we've got a head start there.

So you're seeing all that flow through in our results. And if you just look across the board, whether it was U.S., Sam's or even international, ecommerce growth was, I think it's 33% in the quarter. Tremendous progress in each of these areas. So really excited about this, and it ties back into what we talked about at investor day. And that's what makes me happy as I sit here because I can draw a clear line between what we said in our results in the first quarter.

**Michael Baker**
Yep. I love it. Makes perfect sense. Congratulations for all the progress you've made there and for a good quarter in general. And again, I just want to thank you again for your transparency and willingness to come on here and let me pound away on you for 40 minutes. And so thank you to the entire Walmart team. And if any investors have any follow up questions, you know how to find me. So with that, I think we can end the call.

**John David Rainey**
Okay. Michael, thank you for hosting the call. I appreciate everybody who attended today. Thanks.

**Michael Baker**
Thank you.

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