Wal-Mart Stores Inc.
Q2 Earnings Release Buyside Investor Call Hosted by Telsey Advisors
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Presenters
Steph Wissink - Senior Vice President, Investor Relations, Walmart
John David Rainey - Chief Financial Officer
Kary Brunner - Investor Relations, Walmart

Q&A Participants
Joe Feldman - Telsey Advisory

Operator
Greetings. Welcome to the Walmart's Second Quarter Earnings Release Follow Up Buy Side Investor Call hosted by Telsey Advisors. At this time, all participants will be in a 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.

I'll now hand the call over to Steph Wissink, Senior Vice President, Investor Relations. Steph, you may begin.

Steph Wissink
Thanks, Rob. Good morning, everybody. I am going to begin with our legal disclaimer, and then I'll turn it over to Joe from Telsey Advisory to kick off the question and answer session.

As Rob mentioned, 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.

Joe, I'm going to turn the call over to you. Thank you.

Joe Feldman
Great. Thanks, Steph, and good afternoon, everybody. Thanks for making this time to join us today. I'm really excited to run through some Q&A with John David Rainey, the CFO of Walmart. So, Steph and John David and Carrey [Ph], thank you guys for including us to do this.

Maybe we'll just get right to it because we've got 45 minutes. I have a bunch of questions that some of you on the call have sent in, plus some of our own. If you have additional questions, please send them to me, to Jfeldman@telseygroup.com, and I'll try to get them in, but we have a tight timeframe and a lot of questions.

So, with that, John David, why don't we start with the consumer health and what your latest thoughts are on the health of the consumer and, you know, the metrics you guys are monitoring over at Walmart to gauge where the consumer's at and your thoughts on maybe how the second half might look, especially with student loan payments resuming? Thanks.

John David Rainey
Sure. I'm happy to address that, Joe. And I first want to thank you for hosting the call. And for all the participants that are on today, we're looking forward to addressing all of your questions.

The health of the consumer is obviously probably the top thing on everyone's mind. That seems to be the first question we get, and this is no exception. You know, I think we feel modestly better than we did three months ago, but that doesn't mean that we feel like we've completely turned a corner.

You noted the resumption of student loan payments that begin in October, but energy prices have creeped back up. You've got--we haven't seen the full effect of the tightening of the Fed yet. You know, there's been some banking turmoil. So, I still think there's reason to be cautious. Jobs, obviously, are still plentiful. I think there's two available jobs for every person that's unemployed. So, that is, you know, certainly, I think, mitigating any negative impact from some of those things.

In terms of what we look at, we always have the metrics in our own business, and we're able to look at behavior in terms of what they're buying. That's obviously a very telling sign, is they're trading down into maybe lower price or lower quality meats as their pack sizes change. We also can see certain things regionally. So, for example, we are able to see, just looking at some of the Florida markets just a couple months ago, how some of the tourism had--I don't want to say dried up, but slowed based upon what was being bought in some of the stores in that area.

We also--you know, we keep a keen eye on all the economic reports. And then, as part of our normal quarterly process, we meet several times with some of the issuers and banks that have their own insights based upon card data. And so, we feel like we've got a pretty good look at what's going on with the consumer, but it's far from clear is basically the message right now.

We've been surprised at the ongoing resilience. I think we'd all conclude that elevated savings accounts or bank accounts have something to do with that. But what we see in our own business is that they're being very discerning or very choiceful. And it's not as if they're not spending altogether, they're spending into important events, seasonal events, Fourth of July, back-to-school, Mother's Day, Father's Day, things like that, where we can see strong uptick in some of the purchasing behavior.

Joe Feldman
Got it. Got it. That's helpful. Thank you very much. I guess--so, now next up, you know, something you guys had talked about yesterday was the improvement you are starting to see in general merchandise. And improvement might be the wrong word, maybe the sequential improvement. But we've gotten a lot of inbound questions about that.

And, you know, maybe you could share a little bit more what's giving you some confidence to talk a little more favorably about general merch and what categories might be driving it, and, you know, how you're thinking about back-to-school and what that implies for the back half as far as general merch goes.

John David Rainey
Sure. To start with, though, I would not want anyone to come to the conclusion that we're assuming some sharp rebound in GM where that gets back to pre-inflationary levels anytime soon. I think this is probably going to be a slow recovery in this part of our business.

We were encouraged by the modest improvement we saw in the second quarter. To be clear, GM was still down low single digits, but that was about a 300 basis point improvement from the prior quarter. We're lapping easier comps. We shouldn't discount that. But we are seeing elements in--like I said, in some of these seasonal events, some of the back-to-school, where GM is a little bit stronger.

Of note, the Marketplace business for us, we did see double-digit increases in home, apparel, some of the hardlines. Automotive is something that I'd call out. So, we're encouraged by that, but that probably has more to do the expansion of that offering for us versus any sort of general trends that I would assume about the industry at this point in time.

Joe Feldman
Got it. Got it. And, you know, something that was interesting yesterday that came up was, so that 300 basis point improvement, which dollar wise is a pretty big deal for you guys, really for the industry. And I guess, you know, there's an--there was some impression from some investors yesterday that a lot of it came from Target, but it's got to be coming from other places, right? Is that--you know, where do you think you're gaining share on discretionary?

John David Rainey
Well, first of all, I would say that our sales growth by month in the quarter was very consistent. And I believe--I don't know the exact date, but I think it was in June, where maybe Target had some of the issues that they disclosed on the--on their call. And so, our sales growth was very consistent.

We did gain share, but here's the thing. We've gain share for the last four or five quarters, and the share gains this quarter weren't appreciably different than prior quarters. So, I think this has more to do with the execution by our team and the fact that our value proposition is just clearly resonating with customers right now.

Joe Feldman
Got it. That makes sense. That makes sense. Now, just to stay on the merchandising for a moment, so private brands, this is another question that there's been a lot of investor interest in, and, you know, we--things like that Great Value beef jerky, which is a really good product, and, you know, other things like that. Where do you think you guys are seeing the fastest growth within private brands, and which categories may make less sense for Walmart to really push into?

John David Rainey
Yeah. I--food and grocery are areas where we do the best in private brand. And, you know, generally speaking, and this is a bit of a generalization, but the lower priced items, people are willing to, you know, sacrifice the--you know, take a chance on that purchase versus going out and maybe buying something that's a higher ticket item.

But I think a--I was concerned a little bit yesterday about how this may have been inferred on the call, because this is not a--like major driver of our margin outperformance. Private brand for us does have a higher margin, but the dollar profit of those items is about the same as if we're selling a branded item. And if you look at the year-over-year change for us in terms of the composition of private brand from--for our overall sales, it was 40 basis points.

And so, when you consider that in the context of what happened to our margin, this is not a big driver. And so, I would not want to leave investors with the impression that, if we get to a more expansionary economic backdrop and people are not buying private brand, that that's going to have any, you know, measurable impact on our P&L.

Joe Feldman
Got it. Thank you for clarifying that, because I think that, yeah, we heard that inference too.

Now, as you're thinking about inventory, you know, inventory, you guys have been doing a great job this past couple of quarters. I think it ended down 5.3% year-on-year. How are you thinking about inventory for the second half of this year, especially heading into the holidays and, you know, what the level of inventory you have might mean for your promotional cadence for the holidays?

John David Rainey
We like our level of inventory right now. We feel very good about it. And it's not just our inventory, our in-stock levels. The team has worked quickly to correct some of the issues that we had last year.

Relative to last year, I think it will be a less promotional environment. We feel good about where we are. We're always going to try to provide the very best prices for our customers and lean into certain seasons and events that are important to them. One of the examples that I would use is the back-to-school. We've got 14 items that we're selling combined for less than $13.00. And we've seen in prior holiday events, even going back to Thanksgiving of last year, when we've been able to keep a basket of goods related to that season at the same price as the prior year. Customers are really responding to that.

And so, that's where we're leaning in, certain areas like that. And the early start to back-to-school and what we're seeing I think gives us a little bit of confidence as we think about the--what the implications could be for the holiday season around that as well.

Joe Feldman
Got it. Got it. Thanks. So, maybe we can shift gears to the digital business and the Walmart side. And, you know, with regard to online grocery, obviously it's been a huge driver for growth for you guys. And there's been some question about how big a percentage that is of the overall digital business. Like, is that really what people are buying online from you, or are you seeing it broaden out to general merchandise as well?

John David Rainey
So, we definitely see both. Third-party Marketplace is a big driver of GM. And so, when we talked about Marketplace, you can associate those two. But the biggest component of our e-commerce growth has been the online pickup and delivery. We're really pleased with not only how that's doing, but the persistence of the strength there.

This is an area that has not gone back to pre-pandemic trends. I mean, it's continued. Like, the compounded annual growth over the last three years is 50%, which is really remarkable when you think about that. A lot of us probably ordered groceries online or had them delivered for the first time during the pandemic and, perhaps if you're like me, had some reservation about--around that. But when you go through that experience and you recognize that you get very similar merchandise or very similar groceries to what you would be picking if you were in the store, and you appreciate the convenient aspect of that, it gives us repeat customers.

And so, we're leaning into this. Our goal, getting back your question, is to help those customers cross the aisle, whether that's a digitally or if it is a brick-and-mortar experience, to buy more GM when they do that. And we know that, to be very effective there, we need to expand our assortment. And so, that's what we're doing with our Marketplace.

Joe Feldman
And, you know, so now on that Marketplace comment, which, you know, continues to come up, you know, you guys have done a lot there. And there's fulfillment services. There's, you know, placement, I think, fees and other various opportunities to capture greater profit. Maybe you

could talk a little bit more on the Marketplace and kind of how you see that developing and, you know, how you're pushing the fulfillment side of it and the contribution overall to profit that you see in the next year or two.

John David Rainey
You bet. Well, Marketplace in the quarter from a customer perspective grew 14%, so above our top line growth, and very pleased with that. Importantly, the number of Marketplace sellers that use our Walmart fulfillment services grew 50% in the quarter.

And, you know, my vision there is to make that so compelling that it's almost as if you're on our Marketplace and you're not availing yourself of Walmart fulfillment services, that you're using us in the wrong way. And the feedback that we're getting from those sellers and the consistency of the--you know, keeping those customers I think is a strong indication of how that's going right now, which fits into that vision.

But we're getting better and better at fulfillment and delivery. And, you know, separating aside Marketplace for a second and just talking about fulfillment and delivery, roughly 50% of our orders are now being filled in stores. And this really gives you an indication of how this is doing economically, because the most expensive part of delivery and fulfillment is that last mile. And with our store proximity within 10 miles of 90% of Americans and fulfilling 50% of that from there, it helps us reduce the cost around that.

Now, what we need to complete that equation is we need more density in our network. And that's happening with the growth that you see in our business. So, as we continue to grow this more and more and not adding more stores, you can infer that we're solving that density equation, which makes us allocate that cost over five packages on a delivery versus one package on a delivery.

Moreover, we've dramatically improved just in the year that I've been here in the number of orders that we complete that require one package versus two and three packages, because when you have to have a second or third package, you can imagine the economics get upside down very quickly on that delivery.

Joe Feldman
Yeah. No, that makes sense. And, you know, maybe just staying on the digital side of things and--so, there's been a lot of talk about the investment in technology and automation and everything you guys are doing there. Maybe you could just remind everybody at a high level, you know, what you're doing.

Because I know there's two separate parts of it. There's sort of the--there's a lot of technology being done in the stores. There's the warehouse automation that's happening. Maybe we could start with the warehouse automation, I guess, and, you know, thoughts on how that's driving the business and what we should expect to see over the next few years, what KPIs we should look for or that you look for, you know, in order to determine success and expansion.

John David Rainey
Sure, Joe. And I'll ask my colleagues to jump in here as well. I don't want to dominate the conversation. But starting with our warehouses, and we demonstrated this at our investor community meeting back in April, but when we fully automate one of our warehouses, it gives us basically twice the throughput through the same square footage.

And just as context, like, I know there's focus on how much this costs but, like, when we take one of our--like I believe our ambient DCs, like, roughly 60% of the cost of that facility that's fully automated is in the land and the building. And so, the--we're retrofitting old or older buildings, which is making this a lot more economical.

But when we do that, what we disclosed the other day is that we see a roughly 30% improvement in the efficiency in terms of cases per hour that we're able to process through there. So, it gives us twice the capacity and a 30% improvement in the throughput. That dramatically changes the economics in this part of our business and enables us to better serve our customers. But that's only part of the equation.

The other thing that we're doing are these MFCs that we're appending at the end of our supercenters, which effectively give us automated storage and retrieval just like an FC, but in the grocery store itself. And so, the picking it becomes a lot easier, those items that are very common in orders, what we will store in that part of the facility. And it makes us a lot more efficient at that as well.

The other aspect of this is when we have one of our bots that is loading a pallet in an FC and then that's delivered to a store, all of the items in there are specifically packaged in a way to where an associate doesn't have to go item by item and figure out where that goes in the store. The--they're packaged in a way where all of the items in a particular area on an aisle can be put out at one point in time. And there's a huge efficiency part just in the store itself of unloading that pallet.

So, all of this gives a sort of a peek into the future of how we're using automation to become a lot more efficient in this part of our business. Are there things that either of you would talk about?

Steph Wissink
Joe, it's Steph. I would just add that this is hardware, software, and data combining to be something highly proprietary and very efficient and effective. And so, the--what John David referenced was a lot of the pieces of the puzzle that come together.

But this is a real end to end transformation for our company, and where a lot of the power of data is going to show up in the proficiency of the outcome of automation. So, we use the word automation, but we're really talking about this layered matrix of hardware, software, data with a--an outcome that is expected to drive P&L and ROI.

John David Rainey
The advancement for us, as Steph is mentioning on the software side, really is combining the technology in the stores and the fulfillment centers and making sure that we're distributing our supply based upon that entire network versus just optimizing for stores or just optimizing for FCs. And so, that's an element of the software of this.

The additional piece, though, is the demand prediction. And I would say, we're kind of in the early to mid-innings of this. I would say, we're far from best-in-class on this, but we're getting there. And when you think about that technology, that demand prediction, the most important thing that you need to do that is data. Well, we have data. And if you just step back here for a second, to me, this is a big part of the invest thesis of Walmart right now.

If you think about what it takes to be successful in omnichannel retail, well, you need that physical footprint that you have, but you also need the technology side. I would actually argue the technology side might be the easier of those two, and certainly the quicker of those two, to build. In any technology company, the challenge that one has in a startup is gaining customers and getting that scale. We're starting with that. We're starting with the scale on the customers. Now, we're putting technology in front of them that actually enhances their buying and their shopping experience with us. And so I feel really good about where we're going here, and I certainly, I said on the call yesterday, I like our position.

Joe Feldman
Yeah. No, it's a lot of exciting stuff. And having been down to the analysts, I mean, it was really cool to see it in action. You can really appreciate everything you're talking about. Now, a lot of these benefits, presumably, we'll really start to see, I guess, go forward, right, really '24 and beyond, presumably?

John David Rainey
That's correct. There's two elements that will drive the benefits. One is the pace at which we deploy the technology and the hardware itself. And that's fairly linear over the next several years; there's not a lot of big step function changes. Obviously, the more that we have in place in any period of time, the more efficient that we're going to be. The second element is this density, and you should be able to measure that for us just on our growth metrics. The more customers that we have, the more sellers that we have on marketplace, the more skews, all those things will give you an indication, are we densifying our network, which will further drive efficiencies.

Kary Brunner

One of the things that we're hearing more and more as we roll out this technology, is the impact it's having on our associates. Jobs are much less manual. People are extending their careers with Walmart, it's much more fulfilling jobs, which is helpful from a turnover perspective as well. So it's really hitting all ends of the metric here, both from a people side and the technology side, which is consistent with our strategy.

John David Rainey
Kary makes a really good point, and I would point you back to our positioning statement that we've talked with you about a couple times. We are a people-lead, tech-powered omnichannel retailer, and we start with people lead. And so this is--we view this--it's an and, not an or. When I say this, I mean technology, the deployment of that. We're doing it in a way that is enhancing the careers of our associates.

Joe Feldman
No, thank you, guys. That makes a lot of sense. I guess before we leave the the tech, one more thing. So Doug, I think, spoke a bit about AI and generative AI, large language models and everything about that yesterday. I guess, where do you see the biggest opportunities? It sounded like he actually saw quite a bit on the associate side even, I don't know if it's more so than for the consumer, but how are you guys envisioning leveraging those, that new technology out there?

John David Rainey
Yeah. Well, I'll start with the old adage that you're all probably familiar with, rings to me here, that we probably overestimate the impact of this in the short-run and underestimate it in the long-run. And so I preface my statement by saying, we're clearly early on here. I don't want to overstate some of our advancements, but we actually see a lot. Well, I talked about supply chain earlier and I gave an example yesterday around that. Associate, you mentioned, Joe, which is, I think, really important in terms of the efficiency in which our associates can serve our customers. But I think most importantly, is the way that we use it to serve our customers, and we're doing that today.

Again, I don't want to overstate our effectiveness of that, because like most companies, we're early on in the AI journey, but we can perceive the ability to dramatically change the way that we serve our customers, to provide offers to them that are timely and relevant to them. Versus you think about the old advertising where you're just littering a website with banner ads that are completely irrelevant to a particular person.

Joe Feldman
That makes sense. Okay. Thanks. And then while you were chatting a minute ago about all this stuff, an inbound question came in about RFID, which I know is something that initially, to your point about technology, is that maybe people made a big deal about early on. Seems like that's actually started to roll in now, and you guys are really leaning into RFID, if I'm not mistaken.

Maybe you could chat about the rollout of it and how it's impacting your supply chain and omnichannel network.

John David Rainey
We are. We are leaning into it in a big way. It's harder to do in fresh grocery, though. So this is really more with GM. Apparel is a very obvious example of the use case of this. And actually, you'll see us doing more of this this year. RFID is one thing, though, I mean, we can point to several different aspects in the store itself, or clubs themselves, where you're seeing that the deployment of technology. Automated shelf labels is a really good example, where some of you may have seen that in some of our remodeled stores. That dramatically saves or improves the efficiency of our associates. When you think about the number of items that we have in one of our stores, and potentially the frequency in which prices can be changed.

Kary Brunner
We're in an environment too where we have a lot of personal shoppers supporting that online pickup and delivery business that we talked about earlier, and these technologies really drive efficiency in their pick processes. So it's an added benefit beyond in store shopping and associate execution.

John David Rainey
Yeah. So what Kary is eluting to, as you can imagine, if you're an associate that's picking, and you input an order into your handheld device, and you go down an aisle and those automated shelf labels light up based upon what the contents of that order, is then you can very quickly go to that area. Moreover, it can route you through the store in the most efficient manner, so that you're not bouncing back and forth, just based upon the order of the items that are in the shopping list itself.

Joe Feldman
Got it. Got it. Thank you for that. Maybe we'll shift gears to profitability now, just given that, well, it's 12:30 and I don't want to miss these questions. And also, we have few inbound questions related to the kind of guts of the P&L. First, at a high level, I know yesterday, we were getting quite a few questions about the gross margin. And you saw very strong gross margin in the second quarter, and the thought process was, like, shouldn't you get continued growth or expansion in the gross margin in the second half of this year and into next year? It seems like there's so many good drivers, freight and other supply chain costs are coming down. How should we think about gross margin going forward, in the second half and into next year?

John David Rainey
Yeah. We haven't talked about next year yet, and so I would ask you to hold on that. For the balance of this year, we'll start getting into some easier comps, but Nyx is having the biggest impact on that right now. Muting that impact or mitigating that somewhat is the expansion of these other initiatives that are higher margin, and so that helps the gross margin.

We were pleased with what we saw in the quarter, but we were really lapping a period last year where we had--it's kind of almost the peak of some of the challenges that we had around markdowns and things like that. And so all that combined, going back to the earlier question that we expect the less promotional environment, we feel better than we did about gross margin, but I don't want to suggest that there's not going to continue to be some pressure there.

Joe Feldman
Got it. Okay. That makes sense. And one pressure, this was interesting, it came up yesterday on the call about Shrink, and actually, an investor had just emailed me a few minutes ago about this, and they just wanted to better understand why Shrink is not as big of pressure for Walmart as it seems to be for others in the U.S. retail market?

John David Rainey
It is a pressure for us. I don't want to suggest it's not. But look, if you just take the first half of the year, our sales grew 6%, our operating income grew at twice that rate. So we're managing this within the context of our business. Is it additional pressure year-over-year? Yes, absolutely. Is it something that we're focused on and want to get back to more historical levels? Absolutely, but we're not pointing to it as a major driver of our performance because frankly, we've been outperforming thus far this year. But it's an issue that's difficult to resolve just by ourselves because what we see, Joe, is there's kind of this barbell distinction with our stores. There are some stores that are performing just like they have historically very, very low Shrink. We have other stores that are the other end of that barbell, that have much, much higher Shrink than what we've seen historically.

The common thread or the consistency in that end of the barbell, is these stores tend to be located in cities where they're not prosecuting this type of crime. And so people are going in, and they know that I can steal X amount of dollars. And as long as I steal that amount, and not anything more, I'm not going to get prosecuted. That creates not the best shopping experience, because we end up taking measures ourselves to put that behind lock displays, and things like that. We are putting armed guards in certain cases in some of these stores, and it's not a great associated experience, either. So our primary focus here is to protect our customers and our associates. And to do that, effectively, we really need engagement from the local law enforcement and communities to actually change some of these policies.

Joe Feldman
Got it. That makes sense. That makes a lot of sense. And is part of the reason it's less of an impact, maybe just because you're a global business and some of it gets kind of washed out by international and other areas, so it doesn't rise to the top of the list, so to speak, on a pressure point of view?

John David Rainey

It's actually happening internationally as well, not in every entity, not the same magnitude in every entity, but Canada is one where Shrink is commensurate with what we see in the United States.

Joe Feldman
Got it. Okay. Now, another big question that came up yesterday, staying in the P&L here. So as you just said, operating income grew at double the sale rate in the first half of the year, doesn't look like you're planning that for the second half. And I think there is some confusion as to maybe why. Maybe you could explain that again. I understood there were some increase incentive comp, and some other things, but maybe it would be helpful to just explain kind of operating income thoughts for the second half and the mix between the third and fourth quarter, because there does seem to be a big difference. I mean, obviously, we could back into what the fourth quarter numbers are going to be.

John David Rainey
Yeah, the peak of the pressure is in the third quarter. You're three major drivers in no particular order, fuel is one. So the expectation that we have in the guidance is that some of the margins on fuel come down in the third quarter relative to the peaks where they were last year. Second is variable pay or incentive pay. Last year, in both the second and third quarter, we were reducing the accrual that we have for variable compensation because it's tied to our performance. And hopefully, as investors would want, as we underperformed, we get paid less and as we overperform, we get paid more, and so we're doing a little better than what we expected this year. And we're comparing that to a period last year where we were not doing well, and we were reducing that accrual for that compensation.

And then thirdly, mix continues to be a bit of a drag on the business. We obviously want to outperform that guidance. We'd love to have that relationship between sales and operating income growth hold for every quarter, but there is some impact there. I will point out, and Kary and Steph, you can keep me honest here, but what we provided was a constant currency number. There is a little bit of a tailwind related to currency. On a reported basis, that 1% increase in operating income is, what, roughly 3%, 3.5% on a reported basis when you get the benefit of currency. It's not the same amount of tailwind on the sales number. So hopefully we get close to that on a reported basis, but hopefully that gives you some color on how we're thinking about the quarter and the guidance that we gave.

Joe Feldman
No, that helps a lot. And then, I guess, are there any other impediments to longer term growing expenses at a slower rate than sales? I mean, I wouldn't think so. And it would seem that maybe this year, I understand the puts and takes, but will some of those different things abate as you get into next year? I know we don't want to talk too much about next year, but we've gotten that question so I figured I would ask you.

John David Rainey

Yeah, so the short answer is no. There are no significant impediments. We talked a little bit about historically what we've done. I should have said, in ICM, we talked a little bit about historically, some of the investments that we've made around prices, as well as investment in our associates.

We feel like we're in a much better place today. Those will be more business as usual, going forward. We'll continue to invest in technology. But that's to drive efficiencies in our business. And so, over a longer period of term -- time, I have the goal of getting to an SG&A that is roughly 20% of sales. And so, we've got a little bit of work to do there. But that -- and just so everyone knows, we don't have a dog in the room here at Walmart. Joe, I'm going to blame you for that.

Joe Feldman
Yeah. Sorry about that.

John David Rainey
We've all been there.

Joe Feldman
Exactly. Sorry about that.

John Davud Rainey
But we -- we're very focused on driving that leverage in the business. Our pet doesn't (inaudible) -- but yeah. Well, pet food is actually one of the more inflationary items among consumables right now, so.

Joe Feldman
That's right, it is. These dogs cost a lot of money for me. So, we actually had another inbound, carpet question came in. Somebody was asking about the private-label credit card. And are there -- is there an opportunity there, because it seems like it's, maybe a relatively low percentage of sales for you guys. And I don't know if it's related to the customer, your core customer base.

But maybe you could share some thoughts on why it is that, maybe a below-industry average percentage of sales, and if there's an opportunity to do more with a private-label credit card?

John David Rainey
Well, let me say this, Joe. We're in litigation with Capital One, as you may be aware. And so I'm restricted in what I can say about that. But I will say, just generally, irrespective of Capital One and that agreement, when you look across the industry or -- the industry -- and actually, I shouldn't even limit it to retail. You can look at many other industries, and the benefit that can be derived from a really strong partnership with an issuer on a private-label credit card.

And I think it's fair that the observation that you made I think is a fair one, and that there's a significant opportunity for this to drive more benefit to our P&L and create more customer engagement, as well. That's probably not as (inaudible) --

Joe Feldman
Yeah. Yeah, (inaudible). Okay. No worries.

John David Rainey
But many -- just to help you connect the dots -- you appreciate my background, coming from a fintech. I'm very aware of good looks like there. And so, we're focused on that and think it can be a driver of future benefit.

Joe Feldman
Yeah. That makes a lot of sense. I know we're kind of bumping up on time. We have about five minutes. And we still haven't touched on Sam's, or international. I wanted to ask you about remodels. Maybe, before we get to Sam's and international, maybe we could talk remodels real quick.

I think it came up -- what is it? -- the analyst day, maybe? There was the commentary that that -- like, the New Jersey stores, like that Teterboro store, in particular, which we've been in a few times, looks great. But comping really high off of the initial -- where it was prior to the remodel. And (inaudible) 20% --

John David Rainey
Yeah, I believe the number was 20%. Someone mentioned, yeah. I'm going to -- I'm just giving you a pause here. I'm going to let Steph discuss that. But I'm happy to chime in afterwards.

Joe Feldman
Sure. Yeah.

Stephanie Wissink
Yeah, Joe, (inaudible), good information. Yeah, I think the -- (inaudible) called it the 20% number was the total comp -- or corporate average at that time was in the high single digits. So, the relative performance to the base is a double-digit improvement when we remodel a store, put it in our store to future model (ph).

We are rolling these out pretty aggressively, about as aggressively as we can right now, while also still managing some of them in kind of a test phase, to make sure that we're tweaking and refining and getting the model right, as we move into these geographies. So by the end of the year, we're hopeful to have about 300 of these. And I know the Walmart U.S. team is really excited about accelerating that deployment (ph) as we go into the years ahead.

John David Rainey

Might still be on mute, Joe. Joe, are you there?

Joe Feldman
Sorry. Yeah, I was on mute. I was going to say, just rapid-fire, maybe real quick on Sam's, and then international. Let's start Sam's -- store plans -- I think it's 30 stores over the new few years. What -- what's the pacing of that? And where will those clubs be? I mean, is it just more white space opportunity or is it in-fill markets, or how are you viewing those?

John David Rainey
Sure. I want to be a little close to the vest, just based upon competitive reasons. But, first of all, the time frame is -- that's a plan over the next several years. So, think four to five years. This is pretty metered approach. It's not specific to any region. In fact, if you were to look at a map, it looks like you just -- it's more of a shotgun versus consistency of rifle shots in one area.

Joe Feldman
Got it. Thank you. And then, international has been doing so well, across all the businesses. I guess, and maybe we'll focus on India, just because everybody is so excited about that. What are you guys doing to shore up the losses at Flipkart and PhonePe -- are two, separate business, two different operations.

But still, is -- are the losses starting to narrow, and can they -- when do you think those will be profitable? And is that even an impediment to, maybe, the IPO process?

John David Rainey
It's certainly, I think, tied to the IPO. We'd like to be able to show a path to profitability that's very clear at the time of any liquidity event like that. But they're doing it on their own. They're doing it right now. And, in fact, they've consistently been doing this. The timing is different for each of those two companies. But there's a very clear path to profitability for both of them.

Stephanie Wissink
Hey, Joe. It's Steph. If I could just underscore one thing about India? There's been a lot of media written about PhonePe and Flipkart's evaluation. And we just want to clarify that anything referencing Flipkart group is the combined entity. That is what the business was a year ago.

At the end of the year, we disclosed that we separated the two businesses into their own, independent, legal entities. And we have cap tables for each of them. They are going about their fundraising and gross processes, independently. So, if you're looking some of the valuation numbers that have been cited in the media, just know that Flipkart is now an independent business from PhonePe. So to, apples-apples, compare valuation, you would need to combine the two business valuations, relative to what was cited a year ago, as Flipkart group.

John David Rainey

Just to put a finer point on that -- what Steph's referring to, for everyone to know, is we made a -- we just did another investment in Flipkart. And -- but that investment was just in Flipkart. If you were to go back to the prior funding round, that -- the investment was in Flipkart and PhonePe. And so, she's trying to explain that's an apples and orange comparison, if you're looking at the valuation.

But take away from this, though, regardless of valuation, there's that -- we're bullish on India. We're bullish on Flipkart. We're bullish on PhonePe. PhonePe, just as a second year, they're dong over $1 trillion of total payment volume. They're, like -- when I was at PayPal, we were doing $1.3 trillion. And PayPal has been around for 22 years. PhonePe has been around for seven years. They have -- each of these companies have the largest market share in the largest market in the world. We are really excited about the future of both of them.

Joe Feldman
Yeah. That's great. Those are going to be too big. They're already too big when -- I think. That -- we'll see how that goes. That's great. All right. I know we're at time, basically. I had one last question, then. What surprised you most from the second quarter -- when you guys look back at it, were like, wow, that was either good or bad, maybe, from the quarter?

John David Rainey
Probably the biggest surprise -- I tend to be maybe a little more conservative and maybe pessimistic in my orientation, as the CFO. And the general merchandise improvement was something that I was quite pleased with.

Joe Feldman
Got it. That's great. Well, guys, I want to be respectful of your time. And thank you, so much. I don't know, Steph, if there's anything else you wanted to add to wrap it up? But, thank you, guys, very much.

John David Rainey
Thank you, Joe. We appreciate the opportunity.

Joe Feldman
Okay. Thanks (inaudible) --

Stephanie Wissink
Thanks, everybody, for joining.

Joe Feldman
All right. Bye, Steph. Thank you, guys.

Operator

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