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# Walmart, Inc. (WMT)

Q4 2024 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to Walmart's Fourth Quarter Fiscal Year 2024 Earnings Conference Call.  
[Operator Instructions]

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

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### Stephanie Schiller Wissink

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

Thank you, and welcome, everyone. The format of today's call will follow prior quarters. First, our CEO, Doug McMillon, will share his reflections on the quarter and year. Then our CFO, John David Rainey will review our Q4 and fiscal 2024 results, provide perspective on the key drivers of our financial framework, and offer initial guidance for fiscal 2025.

Following these remarks we'll take your questions. At that time, we will be joined by our segment CEOs. John Furner, from Walmart US, Kath McLay, from Walmart International, and Chris Nicholas, from Sam's Club.

In order to address as many questions as we can, please limit yourself to one question. Today's call is being recorded and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include, but are not limited to the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements as well as our entire Safe Harbor statement and non-GAAP reconciliations on our website at [stock.walmart.com](http://stock.walmart.com).

Doug? We are now ready to begin.

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### C. Douglas McMillon

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

Good morning, and thanks for joining us to talk about our business.

Our team delivered a great quarter finishing off a strong year. We drove sales growth of 4.9% and adjusted operating profit growth of 10.9% in constant currency. Highlights include higher transaction counts and unit volumes, gains in-market share in the US and internationally, improved in-stock levels with inventory being in great shape, and down versus last year, strong performance in Walmart US customer experience scores, even during the high-volume days before Christmas, plus, this year, we passed \$100 billion in global eCommerce sales for the first time. We had a very good holiday season. We were strong in the US, Mexico, Canada and India where we had the best Big Billion Days ever and we continued the strong performance in China with the start of Chinese New Year.

Typically we see some of our customer experience scores dip during the high-volume hours and days we experience during the holidays, but during Q4 the Walmart US team delivered three-year high customer scores in our stores, for pickup and delivery from stores, and for those orders that flowed directly from our eCommerce fulfillment centers.

I'm excited about the omni-channel Net Promoter Score trends the team is driving. Across countries we continue to see a customer that's resilient but looking for value. As always, we're working hard to deliver that for them, including through our rollbacks on food pricing in Walmart US. Those were up significantly in Q4 versus last year, following a big increase in Q3.

Our general merchandise prices are lower than a year-ago and even two-years ago in some categories, which means our customers are finding value in areas like apparel and hard lines. In food, prices are lower than a year-ago in places like eggs, apples, and deli snacks, but higher in other places like asparagus and blackberries. Dry grocery and consumables categories like paper goods and cleaning supplies are up mid-single-digits versus last year and high-teens versus two-years ago.

Private brand penetration is up in many of the countries where we operate, including the United States. During our Q3 call, I mentioned that we might find ourselves in a deflationary position early in calendar 2024. In Walmart US, we're there in general merchandise but the slope of the decline softened during Q4 meaning the prices are lower than a year-ago but not as much as the trend line would have suggested at the end of Q3.

We saw the trend line for food and consumables in Walmart US soften too resulting in our retail prices in food and consumables being slightly higher than a year-ago. In total for Walmart US, our year-end retail prices on like-for-like items were inflated by about 80 basis points. Importantly, we're encouraged by our strength in terms of units and transactions.

Sam's Club US is in a similar pricing position to Walmart US and outside the US our pricing comparisons to a year-ago are in more of a normal range. We're excited about the momentum we see and we're pleased with the quarter, but my focus stays primarily on what we're building for the longer-term. That future is an omni-channel one where we simultaneously strengthen our stores and clubs and build a more compelling eCommerce business.

As it relates to strengthening our stores and clubs, we're investing in remodels and supply chain automation to improve the customer experience and increase productivity. Those things are going well. We'll remodel 928 stores and clubs globally over the next year including 650 stores in the US. Not long ago we shared that we would be building 30 new Sam's Clubs in the US over the next several years and more recently, we announced we will add more than 150 Supercenters in neighborhood markets in the US over the next five years.

Most of those are new-builds in locations where we need a new store, but a few of them will be discount store conversions to a Supercenter where we're relocating in the same community.

Outside the US, we'll open around 230 stores and clubs next year, mainly in Mexico and Central America and in China where they'll mostly be Sam's Clubs. We ended the year with 47 Sam's Clubs in China, and they continue to be quite strong on the top and bottom-line. We are by far the leading membership club operator in China with 28 years of experience there.

So, our physical fleet is getting stronger and it plays a hybrid role serving customers and members when they visit and simultaneously enabling an important portion of eCommerce. Beyond our stores and clubs, we're continuing to strengthen our first and third-party eCommerce capabilities and scale those businesses around the world. The combination of marketplace and the commissions that go with it, fulfillment services, membership, advertising, and our smaller but fast-growing data monetization business enable us to grow our bottom-line faster than our top-line while delivering everyday low prices for our customers and investing in our associates at the same time.

Marketplace is an engine for our business. As we've added more sellers in the US, we've seen more of them use our fulfillment capabilities. Marketplace is also the fastest-growing aspect of eCommerce for us outside the US. That growth helps us drive our global ad business. For now, we see the biggest dollar impact from Walmart US and in India from Flipkart, but as these businesses scale in places like Mexico and Canada, we expect to see a similar relationship.

Globally we drove advertising growth of 28% for the year to reach \$3.4 billion. Our announcement today that we've agreed to acquire VIZIO gives us the opportunity to reach and serve customers in new ways, and connect more dots for those that advertise with us.

Membership's another area where we'll continue to enhance our offerings. Walmart+ members spend nearly twice as much with us as non-members and they buy more over the course of a year. At Sam's Club US, we're rolling out new exit technology that enables our members to use Scan & Go to just walk out after completing their transaction on their phone, further enhancing their membership.

Last year, we began describing ourselves as a people-led, tech-powered omni-channel retailer dedicated to helping people save money and live better. This description's really resonating for us inside the company. We can prioritize our associates, our values, and our culture, and put impactful technology to work to help us fulfill our purpose, strengthen the customer and member experience and strengthen our company.

Here is some recent examples of us being tech-powered. Our new generative AI-powered search on the Walmart US app, which rolled out to iOS users last month and is coming to Android users this month, is a great example. One of those popular searches this month was help me buy a Valentine's Day gift. And rather than searching separately for things like chocolates, a card, jewelry, flowers, the search returns a list of results that are relevant and curated.

And Flipkart launched a similar generative AI search tool which was available just in time for Big Billion Days. Another example is our ability to provide customers and members with more convenient and affordable delivery. We already offer express delivery in the US where customers can get their orders delivered fast, but what if you need something faster? There's a pot of chili on the stove and you realize you forgot chili seasoning. Drone delivery can get it to you in 15 minutes or less. Delivering by drone isn't new to us. Over the last two-years, we've operated 37 hubs across seven states, completing 20,000 deliveries. By the end of the year, we'll make it available to about 75% of households in Dallas-Fort Worth.

I'm really excited about how the pieces are coming together in the near-term. Our customers will have an improved store experience given our remodels. They can pick up an order, have it delivered to their doorstep or into their home or get a fast drone delivery when they want it. And this flexibility is enabled by a more intelligent, more connected, and more automated supply chain.

From scaled businesses to our faster-growing newer businesses, we're well on track to continue to hit the financial targets we laid out and make important investments for the future. And while we do this, we can grow in a way that helps us achieve our goals of creating opportunities for our associates and becoming a more sustainable business.

In 2017, we announced a bold ambition to work with our suppliers to reduce, avoid, or sequester one gigaton, that's 1 billion metric tons of greenhouse gas emissions by 2030. We call it Project Gigaton. Our merchants and

suppliers got to work and made investments in practical things like energy efficiency, packaging redesign, and load optimization.

We've reported steady progress since then and we're excited to say that our suppliers have now reported projects exceeding that 1 billion metric ton mark, six years early. We'll continue to work with our suppliers on real initiatives, with real-world impacts, that make our products better and our business stronger.

As we think about developing our associates, we want them to feel, think, and act like owners. The degree to which our team takes ownership, will have a big impact on our level of success. That's what motivated us to make shares of Walmart stock part of US store manager compensation. It's also why we decided to do a 3:1 stock split.

Today, more than 400,000 associates participate in our associate stock purchase plan. That's a big number, but hopefully even more will choose to participate and take advantage of the 15% the company contributes for the first \$1800 purchased by an associate each year.

Psychologically it just feels better to buy a whole share rather than a fraction. We believe in our plan and we're looking for ways in addition to our 401(k) and the match that goes along with it, to help our associates build well and do more than just earn a paycheck.

I'll close by thanking our associates for delivering a great quarter to end the year where we've accomplished so much. We're out to build on our momentum. We have strong omni-channel businesses globally and they're getting stronger. We're focused on executing the plans we have for this year and beyond, which we believe will deliver top- and bottom-line growth within the framework we've discussed and improve ROI over time.

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

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## John David Rainey

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

Thanks, Doug. We're excited about the progress we've made in growing and evolving our omni-channel platform in pursuit of our purpose to help people save money and live better. Our teams did a great job in the quarter finishing the year strong.

For the year, in constant currency, we achieved 5.6% net sales growth and over 8% adjusted operating income growth. We have strong underlying momentum exiting Q4 and are clear about the strategic initiatives we're seeing driving profitable growth in the years ahead. This is reflected in the sustained sales and operating income growth included in our FY 2025 guidance.

I'll recap Q4 results using the framework we introduced at our investor community meeting last year, growth, margins, and returns. As a reminder, there's a supplemental presentation on our IR website with additional information beyond my remarks.

First, growth. Constant currency sales increased nearly 5% or almost \$8 billion in Q4, with strong growth from all three segments, led by increased transactions across in-store, club, and eCommerce channels. International sales grew 13% reflecting strength in Flipkart, Walmex, and China. International eCommerce sales increased 44%, reaching a penetration level of 25%, which is a record high for us. This included Flipkart's largest-ever Big Billion Days event with 1.4 billion customer visits over the eight-day period.

In the US, Walmart comp sales grew 4%, reflecting increased unit volume and share gains. Like-for-like sales inflation was about 1%, moderating approximately 160 basis points from Q3 levels. We saw better-than-expected holiday sales, including two record-breaking volume days leading up to Christmas.

Store-fulfilled delivery sales were up nearly 50% and we reached a \$2 billion monthly run rate. Delivery has been a key source of share gains among upper income households, and is also the most productive channel for acquiring Walmart+ members.

Sam's Club US delivered comp sales growth of 3.1% excluding fuel, with strength in food, consumables and health categories. eCommerce sales increased 17% and we gained grocery share in both units and dollars. eCommerce continues to be a key point of differentiation for Sam's with delivery and curbside driving eCommerce growth and in-club Scan & Go penetration up over 270 basis points.

Turning to margins. Enterprise gross margins expanded 39 basis points. Customers are responding as we continue to manage pricing aligned to competitive historic price gaps. In addition, we had lower markdowns resulting from strong inventory management, with Walmart US inventory down 4.5%, Sam's down over 8%, and international relatively flat excluding currency.

This puts us in a good position to start the new fiscal year. The timing of Flipkart's Big Billion Days was a partial offset to gross margins. And while category mix pressure continued this quarter, we're encouraged to see sequential improvement versus Q3.

SG&A expenses on an adjusted basis, deleveraged 16 basis points largely due to higher variable pay expenses in the US relative to last year as a result of exceeding our planned performance. One of the areas I'm most pleased about is the improvement in eCommerce profitability within the Walmart US segment resulting from lower eCommerce fulfillment cost and densifying the last mile.

Our store proximity to customers is an advantage, as we increasingly use stores to fulfill eCommerce orders. We've lowered last mile store-to-home delivery cost by about 20% in the last year, even as we've shortened delivery times the same-day from around 90% of stores. Combining the fulfillment efficiencies with improved margins of eCommerce, we far exceeded the 200 basis points goal we outlined at our investor community meeting and lowered eCommerce losses by more than 40% versus last year's level.

We also saw another strong quarter from our portfolio of higher-growth initiatives that reinforce our core omni retail model. Global advertising grew approximately 33% led by international's 76% growth. International's growth benefited from the timing of Big Billion Days, but still delivered full year growth of about 30%.

Sam's ad business achieved a new high with almost 50% more advertisers versus last year. Walmart US Connect ad sales grew 22%, with more than 50% growth from marketplace sellers. We're encouraged by the strong demand from new advertisers as active advertiser counts increased over 20%.

We're excited about our agreement with VIZIO to bring together their unique operating system and our Walmart Connect advertising business. This combination would create new opportunities for advertisers to connect with customers, empowering brands to realize greater impact from their advertising spend with Walmart. We believe the deal would close during FY 2025.

Due to certain transaction-related costs associated with the acquisition, including for talent retention and technology integration, we expect the deal to be slightly dilutive to EPS in the near-term. We plan to finance the

acquisition to use cash and/or debt. Importantly we believe the transaction would be IRR accretive, delivering returns ahead of our expected ROI.

Within marketplace and fulfillment services, Flipkart's momentum continued with double-digit growth. In the US, Walmart's marketplace delivered strong holiday events including Black Friday, our largest marketplace sales day ever. Over the past year, we've increased sellers 20%, with approximately 30% of sellers using Walmart fulfillment services. And we're pleased with the trends in our membership programs around the world. Sam's Club US reached another record high-level for member counts and Plus member penetration, which led to membership income growth of 10% and Walmart+ continues to grow double-digits.

Strong sales and margins led to fourth quarter adjusted operating income growth of more than 13%, while adjusted EPS of \$1.80 increased 5.3%. Below-the-line, higher interest and noncontrolling interest were headwinds to adjusted EPS.

Moving to returns. We generated over \$35 billion in operating cash flow this year, an increase of nearly 24% due to strong business performance and improvements from working capital initiatives. Return on investment improved approximately 230 basis points to 15%, a level last achieved in 2017.

Our stepped-up investments aimed at improving margins and productivity resulted in capital expenditures of \$20.6 billion. The magnitude of ROI improvements reflect some benefits from productivity initiatives that we initially expected to realize in FY 2025. And as we announced this morning, we're pleased to raise the dividend by 9% this year, the largest increase in over a decade, reinforcing our commitment to strong cash-returns to shareholders. And as we continue to execute on our long-range plan, we will continue to evaluate the appropriate payout ratio for our business.

We have a clear vision to deliver our financial framework of growing operating income faster than sales. I'd like to spend the next couple of minutes on the initiatives we believe will drive improved incremental margins in the years ahead, even as we stay customer and top-line focused, deliver value for them, and invest in our people.

Beyond steady, broad-based sales growth across segments, incremental profits will be derived from four key areas. Business mix, productivity benefits from our supply chain transformation and automation improvements, product mix, and geographic mix. These areas will contribute to improved eCommerce economics over the next several years.

Starting with business mix. As I noted previously, we're excited about how our newer, higher-growth businesses are scaling. Together these businesses have significantly higher structural margins in our core retail business and they are growing significantly faster, which has the effect of bending our margin curve upward. Over the past year, global advertising grew 28% to about \$3.4 billion. Walmart US marketplace revenue grew 45%, with more than 35% of orders fulfilled by Walmart fulfillment services and lastly, global membership income grew 20%.

Over our planning horizon, the growth of this portfolio is expected to be one of the largest drivers of operating income growing faster than sales. We believe global advertising and membership alone will represent 20% of annual operating income in FY 2025. These profit streams allow us to fund investments in our core business, while also expanding our operating margins.

Turning to supply chain transformation and automation. This was a significant year for the phased deployment of automated technologies to optimize our next generation supply chain. This program spans several years, with activity stepping up in FY 2025 and FY 2026. To-date, we've retrofitted 13 regional distribution centers, with

varying levels of automated storage and retrieval systems. This technology gets product to shelves faster and has meaningful benefits to productivity, both in our DCs and stores.

With the progress we've made over the past year, we're on track toward our goal of having approximately 55% of our fulfillment center volume and roughly 65% of Supercenters, serviced by automation by the end of FY 2026. Already, around 1500 stores are receiving palletized freight from these DCs.

There are also exciting benefits from technology being realized in our stores. We're using applications to drive speed and proficiency including RFID and computer-vision, as well as digital displays and labels to remove friction for both customers and associates. New digital tools that automate repetitive tasks or eliminate heavy lifting have increased associate productivity and customers are benefiting from improved in-stock rates and associate accessibility, leading to customer experience scores up over 140 basis points in FY 2024. We expect to begin seeing the enterprise financial benefits of upstream automation and cost to fulfill, inventory efficiency, store productivity and wage leverage as we move through FY 2025 with a more pronounced benefit in the second-half.

On product mix. Continuing to expand our eCommerce assortment is critical to earning first position consideration among customers. This is particularly true for general merchandise, including our marketplace. We've accelerated visit frequency and built incredible trust through core essentials like food and consumables. In fact, weekly active eCommerce customers grew 17% this last year. We're building on this trust by improving our general merchandise assortment both on and offline.

General merchandise also benefits as US store remodels continue to perform well. We'll execute another 650 in Walmart US in FY 2025 on top of the nearly 700 remodels completed this year. We're also excited to be returning to store growth in the US, as Doug mentioned.

Our Supercenter Store of the Future design, is resulting in stronger four-wall sales, while also delivering a sales lift in the surrounding trade area, as these modernized stores offer more capacity for pickup and delivery, are more engaging to shop, and are improving customer perception about Walmart, especially in general merchandise where we're encouraged by the share gains we're seeing.

For general merchandise categories that surged during 2020 and 2021, and have longer replacement cycles such as electronic and housewares, we expect relative weakness to persist in FY 2025, although are hopeful to see directional improvement in the second-half as comparisons ease.

Lastly, geographic mix. Our international portfolio is accretive to sales and profit growth and is expected to be a larger contributor to enterprise performance. We're on pace to achieve our goals to reach approximately \$200 billion in GMV and more than double profits by FY 2028 from the FY 2023 base. This implies high-single-digit annual sales growth for the segment. In FY 2024, international grew constant currency sales 10.6% and adjusted operating income over 15%.

India, Walmex, and China, are the sales growth leaders. These three markets are expected to account for approximately three-fourths of international growth over the next several years. In India, Flipkart's growth continues to compound in the double-digits, while PhonePe is now processing more than 6 billion monthly transactions and has reached 1.4 trillion in annual total payment volume, about 40% higher than one year-ago and Walmex continues to go from strength-to-strength.

Turning to guidance. Relative to prior-year's, we're introducing a slightly wider range of potential outcomes, given the size of our business and a greater degree of variability we've seen. There are three nuanced factors to consider for FY 2025.

First, FY 2025 is a leap year which adds an additional day in Q1. I'll refer to this effect in our Q1 guidance shortly.

Second, we'll experience a 53rd week for comp sales in Q4. We've included a slide in our presentation to help with modeling this.

And third, on January 30, we announced that the board-approved a 3:1 stock split effective February 23rd. We're offering full year and first quarter EPS guidance on a pre-and-post-split basis.

For FY 2025, we expect net sales on a constant currency basis to grow between 3% and 4% and for operating income to grow 4% to 6%. We expect Walmart US and Sam's Club US net sales growth to fall in-line with the enterprise and for international growth to be above enterprise growth. We expect all three segments to contribute to operating income growth led by Walmart US, Walmart International, and then Sam's US.

At our Investor Day last April, we outlined a multi-year plan of growing sales approximately 4% and growing operating income even faster. We depicted that as a range of 4% to 8%. Looking at our growth over a two-year period, combining FY 2024 actuals and our guidance for FY 2025 at the midpoint, suggests we will grow sales more than 5% and operating income over 8% on average annually. This is aligned with the framework we laid out and we're pleased with how we're executing on this plan.

At the enterprise level, we expect sales to grow faster than operating income in the first half, due primarily to the timing of technology spend. In the second-half, we expect operating income growth to exceed our sales growth. And on a full year basis, we expect operating income growth to exceed sales growth by 150 basis points at the midpoint. This spread between operating income growth and sales growth in FY 2025 is similar to what we experienced in FY 2024. Adjusted operating income grew 250 basis points faster than sales, including a benefit of approximately 90 basis points from LIFO.

As we've noted in the past, this relationship of operating income growing faster than sales won't occur every quarter, but we aim for the framework to hold on an annual basis at the enterprise level. We provided additional detail and guidance for interest, tax rate, and non-controlling interest in our press release. We expect FY 2025 EPS in a range of \$6.70 to \$7.12 on a pre-split basis, and \$2.23 to \$2.37 on a post-split basis.

As we continue the multi-year investment in technology and innovation to optimize our supply chain and stores, we expect CapEx to range between 3% to 3.5% of sales for the next couple years. Importantly, we have good visibility to the ROI on these investments and we're encouraged by what we're already seeing.

For Q1, we expect sales growth of 4% to 5% and operating income growth of 3% to 4.5%. The leap year benefit is estimated to be approximately 100 basis points to sales growth. Operating income growth is expected to be below sales growth this quarter, reflecting timing of technology expenses mentioned previously. We expect Q1 EPS in the range of \$1.48 to \$1.56 on a pre-split basis, and \$0.49 to \$0.52 on a post-split basis.

In closing, our FY 2024 results demonstrated our ability to reshape our sales and operating income growth trajectory and our guidance for FY 2025 assumes operating income growing faster than sales again. Our value proposition is resonating with customers. We're deploying capital to proven and scalable investments in our people and platform and our business model is evolving towards higher-margins and returns.

I'd like to thank our 2.1 million associates worldwide who are indeed making the difference in bringing our purpose and business strategy to life every day. We're excited that by making our stock more accessible to them, more of our associates can become owners and align their interest with our external stakeholders.

I'll now turn the call over to the operator for questions. Thank you.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question this morning is from the line of Michael Lasser with UBS. Please proceed with your question.

**Michael Lasser**

*Analyst, UBS Securities LLC*

Q

Good morning. Thank you so much for taking my questions. My question is on the outlook for fiscal year 2025. At the outset of last year, Walmart guided to 2.5% to 3% constant currency sales growth. This year it's guiding to 3% to 4% constant currency sales growth. Presumably there's some benefit from the extra week and leap year within that outlook for this year. But essentially on a same-store sales basis you're guiding to a similar level, yet the impact from inflation is going to be a lot more moderate this year. So what do you see that's driving this, what seems to be a bit more optimistic outlook? And as part of that, if you could comment on what would have to happen in order for you to hit the high-end of your operating margin outlook that would also be quite helpful? Thank you so much.

**John David Rainey**

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

A

Michael, this is John David. There's a lot to that question. Let me try to unpack that a little bit. I think it's helpful to go back a year and think about the mood and the tone around the overall macro environment. At that point in time, I think there was largely a consensus that we were going to enter a recession in the last year. Fortunately, we avoided that and so I think overall, we feel little bit better about the health of the economy right now. That said, price levels certainly effect our forecast as well.

So let me decompose our guidance just a little bit and spend a moment on this. I think there's a couple of important elements to point out. One is that overall, we expect some level of improvement in gross profit, but I want to decompose that further because there's two elements to that. One is our product margin, which we are not relying on raising prices to achieve our long-range plan so let me be very clear about that.

The improvement in gross profit is mostly related to the change in our business mix. As we have these faster-growing, higher-margin parts of our business like advertising, that are contributing to an out-sized part of our portfolio. So we should expect to see some improvement in gross profit.

Conversely, on the SG&A line, we do expect some amount of deleverage in our business. And I want to pause on that for a second, because we recognize that EDLC is critical to being, to performing on EDLP. And so we have a lot of focus on continuing to become more efficient to continue to try to leverage aspects of the business that we can. But our business has changed, just as I noted in my prior comment around business mix, that effects what happens in SG&A, as we rely on things like advertising some of the expenses related to that hit the SG&A line and so our focus as a team is on growing operating income and you see that in our guidance.

I'll also point out that while mix, and I should say product mix, has been a headwind over the last two-years, we do assume some amount of headwind going into the coming year, as general merchandise will be less of our business relative to food, so there is some persistent tell to that.

In terms of what would have to happen for us to hit the top-end of our guidance, I think a couple things, and we're most focused on what we can control and that's the team executing on our plan. So that's our focus, but we're not immune to the whims of the economy and certainly there are economic outcomes that could cause us to move to the high-end of the range or the low-end of the range. But given where we are right now, going into the first part of this year, we feel really good about the plan. We feel really good about the way that the team is executing, and the way that we're serving our customers.

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

**Krisztina Katai**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi, good morning, and thank you for taking the question. So similarly, I wanted to start with gross margin, right. It was very strong in the quarter, up nearly 40 basis points for the enterprise. So I was wondering if you could quantify maybe the biggest drivers behind the improvement. If you look at higher-margin services with core retail and how that gives you sort of confidence in the back half of the year for fiscal 2025.

And then John David, you talked about the improvement in digital contribution margin, certainly the drivers behind that. I was wondering if you could quantify it or maybe speak to the magnitude of improvement we've seen and sort of where that puts you on that path to break-even or even profitability. Thank you.

**John David Rainey**

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

A

Sure. I'll start on the answer to the improvement in gross margin. John may want to jump in there, but we're just in a healthier place than we were a year-ago and I think inventory is a big part of that. As we noted, inventory in the US was down 4.5%, down 8% for Sam's, and that just enables us to operate a lot more effectively.

We saw markdowns in the quarter be notably less than they were a year before and all those have an effect on gross margin. John do you want to talk a little bit more about that and I'll go back to eComm?

**John R. Furner**

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

A

Yeah, thanks, John David. Krisztina thanks for the question. A few things I'd say on margin. Number one, the team is really committed to driving value for customers and they did that in the quarter while improving margin and I want to talk about value in just a second. We're really proud about the fact that our rollback count is up significantly from a year-ago similar to what it was in the third quarter.

Second, the value with customers is resonating well. We saw NPS levels at a high-level throughout the quarter and all-time highs for the quarter, which we're also proud of. And then on the gross margin line, as it relates to the overall flow-through, there are two things to consider there. One is sell-through was very strong throughout the quarter. Inventory closed down 4.5%. This is the first year I can remember in my career being in stores in early December and they were out of storage containers, product on the counter, in the back rooms the teams did a

very nice job getting inventory inside, knowing what they owned, and selling through. And the sell-through that was strong at the holiday events, we mentioned two of our strongest days ever were in December, just leading up to Christmas.

The strong sell-through led to lower markdowns, and the markdowns were by far the biggest impact on margins in the US. And then the second impact would have been from business mix. So, John David said that earlier but those are the two factors that improved it and we feel good about our inventory position as we begin this year. We ended the year clean. Store managers and associates have back rooms that are quite under control. They feel very good about their inventory levels and we're really proud of how they performed.

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**John David Rainey**

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

A

Sure, and Krisztina, I'll address the improvement that we've seen and expect to continue to see in our contribution margin on eCommerce. There's a couple of elements to this. One is I'm really pleased with the way the team has performed on cost of fulfillment. That has gone down 20% in the last year. A lot of hard work has gone into making that happen, but the unit economics of delivering a package to a customer or a member have simply improved. So that's a big part of the improvement we've seen, and we expect to see continued improvements there.

Second aspect of this is the densification of our network, specifically the last mile. As we have more customers coming to us, using us through eCommerce channels, it enables us to spread that cost of delivery over multiple customers. And so if you think about an item like our weekly active customers on eCommerce. That's up 17%, much more than our top-line. So customers are recognizing that they can come to Walmart for convenience just as much as they can on price and that actually helps the profitability of this channel for us.

In terms of where we or when we can get to profitability, we have line of sight to eCommerce being break-even when we include all the various components of this, advertising, fulfillment services, all of that together. But to be clear, we're focused on getting to eCommerce profitability even without the substantiation of those additional items. That's a little further down the road. We have a lot of work to do to get to that point but we're really pleased with the progress that we've made and the plan that we have going forward.

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**C. Douglas McMillon**

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

A

I think big picture, as it relates to the business model, scale has helped a lot. Getting to \$100 billion for the year is a different number than what we were dealing with before and it's nice-to-have growth coming on top of that. And as John David said, the formula, whether it's in the US or it's in other markets around the world is now clear to us.

We're in execution mode as it relates to these things and obviously route density helps, volume helps, mix as it relates to contribution profit is part of the equation. And it's exciting to see whether it's in Walmex or it's what's happening in India, in addition to what we've been talking about in the US with Walmart and Sam's. The commonalities that we're now experiencing, it feels like for some time now we've really kind of known what we're doing and omni is an advantage, figuring out how to leverage stores and clubs, what role they play has been part of that journey as well.

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**Kathryn J. McLay**

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

A

And if I can just comment on China. If you look at their progress over the last few years, they had a digital penetration of about 4% in 2019. They're now at 48% so it's almost 50/50 off line and online and we're driving a profit through that business. So I think they've shown a path to really growing omni sales profitability.

**Operator:** Our next question is from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

**Simeon Ari Gutman**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning, everyone. Doug, I was going to ask you kind of keep it high-level. For fiscal 2024, the prior year, it was a tough consumer year, but strategically, Walmart made progress on a lot of fronts. If you look at fiscal 2025, can you boil down the year, one-to-three measures of success? And I have some ideas but I won't pre-load the question.

And then so what will define success in terms of strategic initiatives? And then just secondarily, any evolving thoughts about reinvestments in the business, so the business should continue to see higher EBIT growth over the next several years. Since you have one year or at least a couple-years under your belt now, of seeing that evolve, do you find that the reinvestment rate could be any greater such that not all of that flows through?

**C. Douglas McMillon**

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

A

Thanks, Simeon. I feel good about the reinvestment rate. If you look at what our plans include, whether it's on the OpEx or CapEx side, I think we're being aggressive and it is exciting to be in a position where we can play offense on price to the degree we need to. We can invest in associate wages and at the same time we can grow operating income faster than sales.

When I look back at last year, and then how that plays through to FY 2025, I think the themes are the same. We've got to keep the top line going and this business has always been so fun, as it relates to just being a merchant driving sales. And I like the fact that we've got an opportunity across so many categories. Food, consumables, general merchandise, apparel and as prices come down on the general merchandise side, there's an opportunity to show off our merchant skills and to drive more units. And that's one of the reasons why, to Michael's question, to start this conversation, we have some confidence is because we're seeing our units move and our share numbers look strong. So top line is a focus. I think we're positioned to grow that because we can do that in-store club, pickup, delivery, however people want to be served.

The second thing I'd mention is the automation plan and I think in the US, where we're most aggressive, we'll see over the next few years a higher-level of inventory accuracy, improved flow, which will help us with markdowns, associate wage productivity, all the metrics that we've been talking about with you guys in particular for the last year. So I think automation is the next theme.

And then the last one that I'll mention is all of the things that flow from marketplace and advertising. I think we've learned a lot about marketplace over the last few years and we're working together to build what is a multi-country marketplace business, which will help us not only with commissions related to marketplace and fulfillment service scale, but it'll also help us with advertising and data monetization and some of the other keys to changing the shape of the P&L, or the business mix as we refer to it. So those are the things that come to the top for me, and that's what I stay focused on.

**Operator:** Our next question is 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. So I just want to go back to the Walmart US general merchandise category. Just curious how the remodels have continued to perform, as I believe you'll soon be lapping the Teterboro opening. And then if you look at the general merchandise offering, curious if you're seeing any green shoots. Just trying to get a sense of when we can start to expect to return to positive growth. Thank you.

**John R. Furner**

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

A

Hey, Rupesh. Good morning. It's John. Really pleased with the team. They're growing top and bottom-line and we're investing in the future. As we talked about, this year we're planning to do 650 more remodels. We did close to 700 last year, which is I think our largest year and had a really big month in the month of November.

The results are very promising. As you know, there is more space for customers. We opened the store up. We're really proud of the results in apparel and home, beauty. We see positive signs out of the pet department. There are a number of things that are coming together. In the fourth quarter, in particular, we're really pleased with the toy performance where we saw unit share gains with big brands like LEGO, Mattel, Melissa & Doug, so there are some really nice signs coming out of those stores and we're looking forward to this year to put another, as we said, 650 remodels out in the market.

**C. Douglas McMillon**

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

A

And you've consistently performed seasonally, I think as we look forward to this year, whether it's Easter, back-to-school, all the way through to holiday again, people come to Walmart for seasonal purchases and we've got a great strength there that we plan to build on.

**John R. Furner**

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

A

We do, Doug. It's been a lot of fun to see how these came together. As I mentioned the sell-throughs are really strong throughout the fourth quarter and Valentine's Day was a strong holiday early in the year. Because we're so close to customers, we were delivering same day up until 8:30 that night. I wouldn't recommend that for everyone but certainly the capability to be able to take flowers to someone at 8:30 who had a bit of a moment was a lot of fun.

**C. Douglas McMillon**

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

A

Saved the day.

**Operator:** The next question is from the line of Kelly Bania with BMO Capital Markets. Please proceed with your question.

### Kelly Bania

*Analyst, BMO Capital Markets Corp.*



Hi. Good morning. Thanks for taking our questions. Wanted to just talk a little bit more about advertising, 28% growth for the year. I think you said reaching \$3.4 billion. Just doing some math here, seems like that could be adding about \$300 million to \$400 million in EBIT on an annual basis now. Just wanted to see if that's in the right ballpark. And what kind of magnitude of growth you're forecasting for this coming year and really the next couple of years? And also if you can just elaborate here on the vision with VIZIO as it relates to advertising.

### John David Rainey

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



Sure, Kelly. This is John David. I'll start. We're really pleased with not just advertising but a lot of these faster growth parts of our business. Advertising we've called out. You noted the growth that we had for the year. We have really strong growth in the quarter. You're right. Your math is right in terms of the type of contribution that we could expect there and that segues into the conversation around VIZIO. We're really excited about that acquisition. I think it's very complementary to what we're already doing organically in that part of the business and this is an accelerant.

I'll turn it to Doug and John though to add more about that.

### C. Douglas McMillon

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



Yeah. We're not going to say too much. Obviously, we need to give that some time for the process to play out, but as John David said, we are really excited about the opportunity to bring together VIZIO'S operating system with our ad platform and we can appreciate that you all will probably have a number of questions about it.

Marketplace and advertising are key drivers of profitability growth as we've already discussed and this acquisition accelerates the build-out of our advertising platform into the connected TV business, which will be exciting. But given that the acquisition hasn't closed, we can only reinforce what we've already shared. So we'll be limited in our remarks today so you may want to save your questions for another topic. We want to focus for now on our quarter, on the company's strategy and more broader topics and then we can come back to once the deal is closed.

**Operator:** Our next question is from the line of Robby Ohmes with Bank of America. Please proceed with your question.

### Robert F. Ohmes

*Analyst, BofA Securities, Inc.*



Oh, hey. Thanks for taking my question. My question is on the transaction comps that I think it was 4.3% for Walmart US. That's a pretty strong number and a big quarter for you guys. Couple things on that. Can you talk about how that kind of played out in terms of the fourth quarter? Was it more grocery-driven and eCommerce driven in grocery? Or did you have really strong transaction growth year-over-year in holiday?

And then in the guidance you guys have given for Walmart US, how should we think about that transaction momentum continuing and then also, probably the biggest drivers of sustaining that kind of high-level of transaction growth for this year?

**John R. Furner**

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

A

Hey, Robby. It's John. Let me start on this and others can jump in. The 4.3% is encouraging. We're seeing more customers. We're seeing them more often. We're seeing a lot of new customers. The frequency, John David mentioned earlier, weekly average customers in eCommerce up 17% is a strong number. The mix hasn't changed really all that much. I think as you look at our results by business unit from consumables to food to GM, pretty similar trends than what we've been seeing. I think the big difference that we can talk about is we see more customers using same-day services and Express deliveries and that's also across a broad range of categories.

It would be intuitive to assume it's food at times, like the example earlier, when you're missing an ingredient but we're also seeing this happen for birthday gifts and general merchandise items and other things. So I'd go back to what we talked about at the beginning of last year, when we talked about supply chain strategy. Having a short last mile is an important component in eCommerce and having stores be able to deliver, historically what would have been an eCommerce order or a food delivery order or the combination of the two is really helping the brand and additionally that's bringing the delivery cost down which has contributed to the improvement in operations loss in eCommerce.

**C. Douglas McMillon**

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

A

I think the things you've done to make it easier to pick at store level should be mentioned too, RFID and apparel. Having the inventory levels down so that people can find things I think helped us a lot when it came time to pick toys at the last minute, for example. Our accuracy, our customer scores reflect that improved accuracy. Combine that with the automation that we're putting into eCommerce fulfillment centers, and you can start to see that there's a great opportunity for us to leverage math and optimize where things come from, but our accuracy is also improving.

**John R. Furner**

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

A

It really has, Doug. There are a few things that we're doing with technology to help us ensure that we know what we own, where it is, and ensure that it's accessible for the store associates. And I can't over-emphasize the importance of inventory levels being down 4.5% and what that does for a store manager, a team lead, for the coaches that are in the stores who need to take care of what a customer needs right now, and that they're able to do that much more accurately. So I think it'll get better over time as the automation continues to come online but definitely some notable improvements from the store team this quarter.

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

**Corey Tarlowe**

*Analyst, Jefferies LLC*

Q

Good morning and thank you for taking my question. I wanted to double-click on technology and talk about Walmart being a people-led and tech-powered company, but specifically as it relates to AI. What is it in the last 12-months that you've deployed enterprise-wide that's worked well for the business and helped drive better returns? And then what is it over the next 12-months that you see that could really help to improve results even more going forward, as I know that that's been a continued focus for the enterprise broadly? Thank you.

**C. Douglas McMillon**

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

A

Thanks, Corey. This is Doug and others can chime in here and help me with this but we're very excited about generative AI. There are big opportunities for us to improve the customer and member experience, improve associate experiences and productivity and to help take costs out of the business and we're moving. I think big picture, we've got a very clear plan as it relates to what we want to build versus what we want to leverage from others, and we've got good partnerships and good advisors and we've got a strong tech team that knows what they're doing in this area, so I do expect that it'll have benefits.

As I talk to other CEOs and we learn here, I think it's still too early to try and quantify this specifically. I think as we look back on what develops, we can probably tell you in the rearview mirror how things played out from a cost perspective, for example, but the thing we're most excited about that's already happened is the way search has improved. The way generative AI helped us really improve a solution-oriented search experience for customers and members is the thing that we're most excited about and it happened pretty quickly, and it impacted Super Bowl search results. We gave you an example of Valentine's Day earlier, and the team's learning how to do that across all of our markets and the entirety of the company, so that's also exciting.

We also rolled out something we call My Assistant on our Me@Walmart application so that all of our associates have access to generative AI tools and capabilities. So strategically, the way I think about it is the leadership of the company is working through where our biggest opportunities are, prioritizing and resourcing those opportunities, but we're also making generative AI available broadly so that we get surprising good news from the way that all of our associates interact with it.

Anybody else want to comment on that technology?

**Chris Nicholas**

*President & Chief Executive Officer, Sam's Club*

A

At Sam's Club we were really excited to unveil at CES the first of our Sam's Club's big consumer-facing applications of AI, so our easy exit process, which employs computer-vision and AI to allow people to just walk out is just a really exciting way. And when you watch customers, I was in a Club last week watching customers just walk out, members just walk out and the joy that it gives them that some computer-vision and AI is making their lives better without them knowing why or how, is really exciting and I think it's just the beginning of a journey in Sam's Club.

We like to innovate. We have the opportunity to innovate and we'll see opportunities for cost-out, no doubt. We took 35 million tasks out of the Club last year for associates by employing technology. A lot of that is artificial intelligence that helps them manage inventory better and we're working a lot with our members too on personalizing how we interact with them. So we're replete with opportunities and I think the important thing is to choose the biggest ones and invest in those.

**C. Douglas McMillon**

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

A

That exit technology still requires a member to scan their items on their app, so Scan & Go is the first step and then you can just leave the building when the transaction is completed but obviously, eventually we want to remove all of that part of the process too.

**Chris Nicholas**

*President & Chief Executive Officer, Sam's Club*

We do.

A

**C. Douglas McMillon**

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

Thanks for the question.

A

**Operator:** Our next question is from the line of Paul Lejuez with Citi group. Please proceed with your question.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Hey. Thanks, guys. You mentioned rollbacks being up versus last year. Can you quantify that and maybe talk about what percent of those rollbacks are being vendor-funded? How that compares to last year as well? And how that might have also compared to how you operate rollbacks historically? Also curious, in which categories you're most focused on providing those rollbacks. Thanks.

Q

**John R. Furner**

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

Hey, Paul. It's John. I'll take that question. Rollbacks are one of the programs used in the Walmart format. It's up around 50% on last year, which is similar to what we reported in the third quarter.

A

As far as categories, it's pretty evenly spread across the box. If you go back to what we said earlier about pricing, general merchandise is negative by low single-digits, so you'll see a decent number all across general merchandise. The food business has a number that are showing up quite as well, so really key items that we know that our customers have responded to well. We took our French bread back to \$1 which had been \$1 for a long time and went up as inflation hit the market. And we're seeing results of that running about 40% over last year, so customers immediately responded. Rotisserie chicken is another one. That price has come down by \$1. Customers are responding.

And then as John David said earlier, customers are being choiceful, and our customers are smart and they recognize value really well. So as prices come down and we can show the value digitally or physically, we're seeing a lot of great responses.

As far as the funding, I mean, it's always going to be a balance. Merchants have a lot of levers in their P&L from their initial margin to how they manage their inventory, back to mix. Many cases, you can improve margin by selling items that are higher margin. You can take higher margin items down and move sales to those items and it shifts the entire mix of the category, so it's not as easy. It's just one simple answer, but the merchants are, as I said earlier, they are doing a nice job of managing value for customers. They are driving rollbacks and because of strong inventory management, we were able to save markdowns and improve gross margin on product.

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

**Seth Sigman**

*Analyst, Barclays Capital, Inc.*

Q

Hey. Good morning, everyone. Just reflecting on the market share gains. A lot of the commentary this past year has been focused on wins with the higher-income consumer. Just any more perspective on how that's been playing out within consumables versus discretionary categories and how you think about getting that customer really up that spending curve over time? And I guess just related, if you could speak to market share trends perhaps across some of the other customer segments as well, that would be helpful. Thank you.

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**John David Rainey**

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

A

Seth, this is John David. We're pleased with what we've seen in market share gains. In the quarter, we gained share in virtually every category but notably, one of the biggest contributors in the quarter was in this income demographic from households that make more than \$100,000 a year. So general merchandise, as an example, two-thirds of the share gain that we had in the quarter, was through this income demographic and digital channels. And what that illustrates I think broadly is that our value for convenience is every bit as much, every grade as what it is for price. And that resonates to people regardless of the size of your paycheck. And so that's one of the reasons we think that we're gaining share. Our value proposition is resonating with customers and they're clearly shopping us in new ways versus how they have historically.

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**Kathryn J. McLay**

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

A

I'd also just comment on some of the other markets that we're in too, looking at the market share gains that we've got, really closely correlate with the improvements we've seen in NPS, as well as price gap. So I think as we look at just being really relevant from a value perspective, in markets we're seeing the consumers responding with the improvements in traffic and also in market share.

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**John R. Furner**

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

A

And there are so many things, Seth, in there, but what customers want, they want a great price, they want a great assortment, they want value, they want experience. And we've been talking about for a couple-years the flexibility that we can offer that we couldn't or did not years ago. And the stores are a very important part of the eCommerce solution, including delivery, but also picking and at times, just being exactly what they are which are great stores that offer those four elements. So remaining flexible is going to be really important to saving people time. John David mentioned convenience and that is definitely a driver of the results.

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

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**C. Douglas McMillon**

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

Thanks for joining us today. I'm a little concerned that I'm going to be boring in my closing remarks because we're becoming quite repetitive. We're in execution mode and the headlines are we believe we can grow. We're confident in our ability to grow because we're positioned to serve customers and members however they want to be served. We can provide value and we can provide convenience, and underneath the supply chain's changing to be more intelligent, more connected, more automated and that's just going to help us improve execution.

From a profit point of view, we can grow profit faster than sales while investing in our associates, while investing in our business and having flexibility on price if we need it. And we'll do that through the combination of business

mix, the productivity delivered by automation. We're in a great set of countries we can sell food, we can sell general merchandise whatever the customer wants in the moment.

And then thirdly, we can grow ROI over time. I think we're investing in the right categories. We're very clear on the places where we're investing. We know what the expected returns are there. It's great to see the automation plans continuing to scale. We're in a period of time here over the next few years where that's going to be vital, but it doesn't last forever and there's a transition on the other side and it looks quite exciting to us.

So I think the combination of growth, profit growing faster than sales and ROI look attractive here and we'll just keep trying to get better as we execute it. Thanks again for your time.

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**Operator:** Thank you. This will conclude today's conference. You may disconnect your lines at this time, and we thank you for your participation. Have a wonderful day.

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