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Walmart, Inc. (WMT)

Morgan Stanley Global Consumer & Retail Conference

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

...a lot of focus on that. And at the same time, the core business has been healthy and gaining market share. Now, the question is how this will turn into revenue. The second P&L kind of flows in over time. ED-commerce has been a standout in this year, and I think this story is starting to offer elements of both offense and defense. So, we're going to have a 40 minute discussion. Look forward to chatting about all things Walmart.

QUESTION AND ANSWER SECTION

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

I'm going to start with eCommerce. It's been a standout, as I mentioned, more or so than any year, almost pre-pandemic. Two players gobbling up market share, Walmart's one of them. So what's driven the strength and it's come even alongside healthy store traffic?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah, well, first, Simeon, thanks for having me here and thanks for everybody in attendance. ECommerce has been one of the real shining points of our business. Just in the last quarter, we grew it in the mid-20%. And I think what's different about Walmart today versus maybe a few years back is that our value proposition stands – it's much more than just the prices or value, it's also convenience. We see that in customer behavior, we see it in customer surveys, and probably the most telling point around this is what we've seen in online pickup and delivery, which is the single largest component of our eCommerce growth.

And if you look at other companies that saw a lot of their eCommerce trends during the pandemic, they accelerated, right. But a lot of those reverted back to pre-pandemic trends afterwards, not Walmart's. We've continued to see our online pickup and delivery and more broadly, our eCommerce, our digitally active customers each week continue to go up into the right. And it's really exciting to be part of that. And in many ways, we are just serving the customer that they want to be served. We've been known for being a brick and mortar retailer. We've done that well for 60 years. But we are punching below our weight in the eCommerce space. And that's why we're investing as much as we are there because we certainly see that customers want to shop us that way. And so, it's an exciting part of our business that actually unlocks a lot of other parts of our business, which I'm sure you'll get to later.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Marketplace, fulfillment service and better 1P economics. Can you frame, and I think we've talked at this stage for years about the path to profitability in eCommerce, how does that shape the path?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Well, they all do and marketplace – so I'll touch on each of them briefly. Marketplace is really exciting for us, because we've been primarily a first-party retailer for our history, and with our marketplace, that enables us to start selling additional assortment, additional merchandise. So, we have roughly 400 million items on our marketplace today, half of those are apparel. And these are items that you traditionally can't get in a Walmart store. And so, it opens us up to a lot more customers wanting to shop us. The economics around that are also different in terms of the P&L structure.

But with more customers coming to our marketplace, we've got more eyeballs coming to look at us, you've got more advertisers that are willing to spend their money there. And the exciting thing about – we refer to these as a few different things, alternative revenue streams or profit pools, growth engines in our business, but they have a very different margin structure than traditional retail at, call it, 5%. Many of these are growing north of 20%, some 40%, and have margins sometimes in excess of 50%.

And so, when you look at what we're doing with our business, how that's changing, how we're leaning in to eCommerce, the composition of our P&L is also changing. And if you fast-forward a couple of years, we continue to execute. We have a much more diversified and durable earnings stream than what we have today and it changes the margin structure, which ties into what we talked about at our Investor Day in April, where we said that over the next several years, we expect our sales growth to, on average, be about 4%, and we expect to grow profits, operating income faster than that.

We depicted that in a range of 4% to 8%, but we certainly are very optimistic about this. We think that we've got a strategy that is working. We're executing on it. It resonates with the customers. And I think very importantly, when you think about digital businesses, think of a start-up in Silicon Valley. You can have a great technology, but the challenge is going in and acquiring customers. Why I think Walmart is uniquely positioned to be successful here is we have that. We've solved customer acquisition, we have hundreds of millions of customers that shop us each week. We're simply allowing them to shop us in a way that they want to.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

In terms of the top line growth on eCommerce specifically, is it the marketplace where you're seeing that momentum or is it still some of those pick-up on the consumable side?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Marketplace has been an area that certainly we've seen outsized growth in. So, let me give you some numbers to put to that. General merchandise is a category, I think, for us and probably all retailers has – we struggled in that area this year. We've seen generally low-single-digit growth in general merchandise categories. On our marketplace in the third quarter, I could give you several categories, but apparel, for instance, we saw double-digit growth. In toys, we saw growth of 35% to 36%. Similar percentage growth in home. So, while these categories are suffering overall, these numbers illustrate that customers are coming to our marketplace, we're gaining share and we're seeing that growth in these businesses.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

We'll get to the second P&L. I want to just step back eCommerce holistically. Not many retailers have or e-tailers have made real profit here. Holistically, does that make sense? Do we put advertising in? Should these businesses make money ex-advertising? Is it the combination of all these businesses that get there? Can you get there on a 1P basis?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Well, we certainly have line of sight to profitability when you include the subsidization of some of these higher-margin businesses advertising. But we're not settling for that. We want to be able to get to eCommerce profitability without that subsidization. When you compare us to other retailers, I think we're different. And that insofar as the most expensive part of delivery is the last mile. And that's where our physical footprint of 4,700 stores in the United States that are within 10 miles of 90% of America give us an enormous advantage. And the frequency with which people shop with us, because we are primarily food, that helps us with density.

If you're a merchant that's selling a high-margin item that maybe is more infrequent, like consider a pair of tennis shoes, you don't have the frequency with which to actually justify the type of investment to build out the network that we're building. We can do that with food because it's an everyday item and we can subsidize that with other thing – or complement that, I should say, with other things like general merchandise, but it's not just our business. Like we could actually do this for others and we are doing this today with our Spark Network, to where this is almost fulfillment-as-a-service.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Health of the consumer, I think it's a theme of this conference, even more or so topical right now. You saw some weakness in October. You talked about, I think on the call, November got a little bit better. Doug was on CNBC I think this morning talking about the difficulty in engaging the consumer predicting. So I'll leave it open-ended on health and consumer?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Sure. So, as context, I've been a little surprised that the resilience of the consumer in the face of high prices all year long, we've seen shifts in their basket where they're buying less general merchandise, spending more of those dollars on food, because their dollars aren't going as far, but they still continue to spend. And each quarter this year has been pretty consistent. When we got to our third quarter, we saw that same consistency until October. In October, the first two weeks look like the prior couple of months in the quarter, but the last two weeks were off-trend. And we speculated that some of what we saw could have been related to weather. And I think certainly some of it was, but I think it was more than that. And it's always challenging when you've got things like Halloween on a Tuesday, that's I think create some anomalous type behavior sometimes. But so, that made us sit up in our chair a little bit and say, okay, what's happening with the consumer, and trying to dig into that.

Then we got to November, the first week of November was more on trend with what we had seen, because it's strong. Second week was very similar. Well, then we've got to release our earnings. And so you've got these crosscurrents of a couple of weeks that were more off-trend, last two weeks were on trend and it was puzzling. And so, we did not want to be alarmist in any way, but we thought it was responsible to call out what we were seeing with the consumer, which was a little bit different than what we had seen prior in the year.

And even if you extend beyond the United States and you think about Latin America, as an example, there are some behaviors with consumers that I think are a little different than what we saw earlier in the year. There's more of a paycheck effect where you see maybe the spending mean more compressed into periods where they're receiving money into their banking accounts. And so these all combined make us, on margin, I think, relative to where we were a 100 days ago, a little more cautious on the consumer. This, again, we were not attempting to or trying to bring an alarm bell or anything. But it's certainly a departure from what we saw in the first three quarters of the year.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

So now taking that and as you approach 2024, what are you watching to gauge the consumer health? And given this maybe head fake, maybe not, you change buying decisions, merchandising, pricing, how do you pivot?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah, I don't know that we've seen enough right now to change any of our behaviors appreciably. But in terms of what we're looking at, it's the same things that all of you look at. We look at job reports, what's happening with real disposable income. Certainly, we're at this period of time where we're roughly 12 months after the Fed started tightening, generally accepted that that's when you start to see the impact of that. We've got consumer loan repayments. We look at all of these things, and we'll look at price levels as well. And it's hard for us to – we don't necessarily have any better projections than what everybody else does, but we do have a good insight, just given the size in our consumer base.

And so we'll watch that closely. But I think importantly for us. We're a company that is going to benefit irrespective of the economic backdrop. If times get tougher and there's probably more pressure on the consumer, again, I think our value proposition resonates. If we get to a better, healthier economy and we see more growth. I think a lot of the things that we're leaning into, a lot of these new parts of our business really resonate with customers as well. So we feel very well-positioned. We've said that repeatedly over the last several quarters, like, we like our position, we like our strategy, we think we're in a good place.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Devil's advocate of that question, prices are not going up as much. We're going to lap some snap headwinds. Technically we absorb some student loan issues. So, why shouldn't the mix get a little bit better and why shouldn't it get a little bit better for your customers?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

If prices come down – well, let me preface this by saying one of the things I've been looking at very closely over the past several weeks is the elasticities. Like, as prices have come down, what are we seeing in terms of units sold, units per basket, a lot of these different metrics. And if we get back to a more normalized pricing level, we should see mix improve. If customers have – their dollars can go further, they can go back into buying more general merchandise, that's good for our business. General merchandise generally has a higher gross profit than grocery for us. And so we've seen in excess of a 300 basis point headwind related to mix shift this last year, I would love to see that revert some.

But not only do I expect to see it revert because of hopefully economic trends, but it's also what we're doing in terms of what we can control as a business. I talked about marketplace, but we're able to provide a lot more general merchandise on the marketplace. We talked about advertising dollars like it's probably easier to advertise for a pair of tennis shoes than it is a head of broccoli. So like, these are all things that will help us in our business to change our mix to the benefit of our P&L.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Deflation and inflation, pretty important for this business, especially given the food exposure. Not to make a dramatic narrative, but some competitors are seeing a different forward pricing curve than Walmart. You sounded the alarm, but talked about disinflation and deflation. So can you clarify? You probably can't justify what others are seeing or saying, but why would there be such a disparity in what the largest growth we're seeing in others?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

Well, let me give some context to the comments that we made on our earnings call. And we called out the prospect of deflation as a possible outcome. It is not our base planning assumption necessarily. And it also doesn't mean that if it happens that it's going to persist into perpetuity. Like, what we talked about is given what we're seeing in our business that the prospect does exist. And to put a finer point on that, when you think about the components of our business and I'll just do it with food, consumables, and general merchandise. General merchandise is deflating today in the 5% to 6% range. It's been pretty consistent trend and it's actually prices are getting to a point where they are, are lower than two years ago.

Food as a category for us is, call it, flat to up slightly, and then consumables are a little bit higher than that. But if you look at the trends and you drag them out to the right, it could suggest that when you consider the overall mix of our business that we could be in a deflationary environment. If that's the case, look, it underscores the importance to sell more units. We're focused on that. It also, as we just talked about – presumably customers can buy more general merchandise in that case.

But also, as a company, it underscores the importance of being focused on the things that we can control, notably our expenses. And so, we're very focused on that because that's relevant insofar as we have a plan where we can grow profits faster than sales over the next several years. We're confident in that, we have conviction in that. We want to be able to demonstrate that. Like, are we going to be able to do it in every single quarter? No. No business probably can. Like you're going to – you're not completely immune to the whims of the economy and some of the decisions you make as a business. But on a multi-year basis, we think that that's a very achievable outcome.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

And the concept that we hopefully will make it up in volume – Doug mentioned that I think today on TV – is that...

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

A lot of my comments are consistent with his.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Luckily. Are the elasticities there? It feels like six months, nine months ago, maybe not. And now, we're hearing there is some elasticity.

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

I agree with your characterization, Simeon. We do not see it necessarily six months ago, but, well, certainly we've seen it in the past few weeks. It's something that I've been, as I said, much more focused on. But this is a few data points we'll need to watch this through the holiday period.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Q3 earnings, EBIT was a bit underwhelming to the Street, especially versus expectation. There's still a little confusion what happened. It doesn't sound like it was the legal charge. Can you talk about the puts and takes?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

So, going into the quarter, our quarterly guidance suggested that EBIT was not going to grow faster than sales for the quarter. And it goes to my earlier point, like you make decisions as an operator of a business that you think are appropriate for the business without being a prisoner to this relationship between operating income and sales. And for us, there were a couple of things going into the quarter that we knew were going to impact that.

One was we had a large number of remodels. And for those of you who are less familiar with Walmart, we're doing a pretty major transformation in many of our stores that is resulting in an increase in comp sales. To me, this is front-footed. We want to do this, we want to invest in the business. It's the right thing for us long term, irrespective of what may happen to the margin in one quarter. We also faced a more challenging comp related to variable pay. If you remember, last year, the economic environment was a little more difficult. We were underperforming our plan. And so, for those that received variable pay, we were paying them less. And this year is the opposite of that. And just to put a point on that, like, if you look at our guidance where it is today relative to when we first guided this year, both sales and operating income will grow at twice the rate that we originally guided to.

So, you've got that comp where you've got more variable pay this year, less last year, which puts pressure on it. So, those two things were known going into the quarter. The other thing that was not planned, which impacted the quarter was an unexpected legal expense we do not expect to recur in future quarters, but those are things that are tough to plan for. But if you look at our guidance this quarter, our guidance for the fourth quarter is to grow operating income at twice the rate of sales. If you look at our guidance for the year, our guidance would suggest that we're growing operating income 200 basis points faster than our sales growth.

And so, we are very excited about our plan. We're executing on our strategy. We've got to navigate the environment that we're in, and that creates challenges from one period to the next. But there's nothing about what we've seen in the consumer, nothing about what we've indicated about deflationary pricing that makes us rethink our long-term plan that we outlined at our investor community meeting this last April.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

So, this long-term plan, this framework, 4% revenue growth, faster EBIT growth, maybe the Street took it as 8% annually. But can we talk about that? Has anything damaged that relationship? And maybe it's a timing thing of when the Street was hoping to see it versus when it should accumulate?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. So, to answer your question, no, nothing has damaged that. Nothing has changed. I am as confident as I've ever been in that number. But let me give some context to what we said for, again, for those who maybe are less familiar with our story. We came out in April and we said that over the next five years, we expect our top line to grow at about 4% on a compounded annual basis. We said that we expect profits to grow faster than that, and we depicted that in a chart in a range of 4% to 8% to give some kind of indication of what that could be.

To your point, I guess – we all, myself included, want to get to that 8% right away. But the building blocks of that are going to happen over time. And those building blocks are improving our unit economics fulfillment by the automation that we're putting into our stores, our distribution centers, our fulfillment centers. I'm really excited about that.

The other aspect of that is the business mix change, which we talked about earlier. We are becoming more than just a retailer. We're an omni-channel retailer, but we're building out an advertising platform. We've got a data venture service, we're doing Walmart Fulfillment Services, many of these other things that have an outsized influence on our P&L. And that's really just talking about the US business. The other thing that I think is really important is we've got a pretty big International business, and we said that for our International segment, we expect both profit and sales to grow faster than the overall enterprise, and that our aspiration is that in five years or call it four years and three months now that we can be at $200 billion in GMV in our International segment. So in Flipkart and PhonePe are big aspects or big parts of that, and we're quite excited about those businesses. I'm sure we'll talk about those later.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. So a couple of scenario planning – downside scenario questions. Let's say the macro stays tepid, we see deflation for 2024. Loaded question, but is 4% revenue growth still possible? Meaning with trade down, international share gain, all the above, is that a fair expectation?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Maybe, maybe not. But we never intended to say that we think through a business cycle, we can get 4% sales growth every year. We think on a multiyear basis, that's the right number for us. And that when all is said and done, that's what we will achieve or something more than that. It's tough to say without knowing about a particular economic construct or environment what got us there. Like, I have been surprised that things have been as strong this year, but this has not really been a time period where consumer is being pressured has been because of lack of jobs or lack of job growth.

And so if that equation were to change, that could influence that as well. But I think the important point that I would want to impress upon our view is that we've got a strategy where, like the math is just such the case that our margins are going to want to go up. This is not like hands off the steering wheel, we've got to execute. But the elements or the aspects of our business where we're growing are higher margin. And they're ones that customers are basically telling us that they value what we're doing there, and they're coming to shop with us.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

And in a weaker top line environment, that relationship of EBIT dollar growth versus sales can hold, meaning, you can still drive faster profit on a call it a one to two type of comp?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Again, it depends upon what gets us there. But it also underscores the importance of focusing on expenses, making sure that we're managing the P&L to achieve that type of outcome.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Right. And so, the investment spend, other investments, you would toggle those back if we saw a weaker revenue environment?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

Look, we're investing for the long-term here. The types of investments that we have, and importantly, a lot of the supply chain automation, these are multiyear investments, and the IRRs on these investments are really, really strong. I think it's somewhat unique to be a company that is 60 years old, that has the type of organic opportunities to invest in ourselves for these kind of returns. And so, I don't want to be so focused on maybe what is a transitory period of – economic period to where we're underinvesting for what is the long-term where we can drive real margin improvement.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Maybe one more to beat this one. We see a lot of retailers prioritizing margin over sales right now. Is there any reason or is there – as we think about 2024 being a more difficult year, could it be a more difficult year to do that, given some of the puts and takes?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

Focusing on...

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

On margin, it's the same idea that there's – we're lapping some discrete things. Is there anything that would harm that relationship between EBIT growth and sales?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

Again, if we're in an environment where it's more deflationary and there's pressure on units, that puts pressure with that relationship. But we're managing the business in a way where I'm hopeful that we can achieve that outcome in any type of economic environment.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Investments, big ones, automation, robotics, supply chain. The supply chain savings unlock is massive and its potential if you get there? Can you give us a progress update on those two?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

Yeah, so this has been, I think, one of the more exciting parts of the Walmart story and just as, like, context in terms of what we're doing. Like if you take a distribution center that we have today, we are automating a lot of these. And when I say automating, that's automated storage and retrieval of the inventory in these centers. And the effect of that is in the same footprint that we have today, in a DC, a Distribution Center, we can have roughly twice the amount of merchandise, by optimizing all the way up to the ceiling.

It also allows us about twice the throughput from twice the volume that we can send from one of these DCs. And this comes at about a 30% efficiency improvement. Again, when you do the math on this, in our business, these are IRRs that are approaching 20%. And that's a great type of alternative path for our business. And we're doing that at scale. And importantly, it's not just an improvement in terms of what it can do to our P&L, it's also on how we can better serve the customer. With some of these improvements, we can serve roughly 90% of America with same-day or next-day delivery.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Can you also talk about, I guess, the internal supply chains, not just the last mile, but distribution to store and how material that could be on the P&L?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Well, so we talk a lot about distribution centers themselves and the efficiencies that we get by automation, but there's also a big benefit in the stores themselves. And if you've ever, well, most of you have not done this, but I think you've seen this. But if you've ever been to the back of a store and you see how items are unloaded from a truck, it's a very manual, cumbersome process. And by automating the pallet storage and even making it wear pallets when they get to the stores can go to a particular aisle to have the merchandise unloaded there. There's a huge savings related to that.

But we're not just automating our distribution centers and fulfillment centers. We're also automating our stores as well. So, one of the things that we have and we're earlier on into this, but something that we call a Market Fulfillment Center or MFC. And this is, think of this as the same automated and the storage and retrieval, but appended to the end of one of our stores. And what's exciting about this is that, if you think of a like a typical Walmart Supercenter may have 130,000 SKUs in it. These automated storage and retrieval MFCs have about 6,000 to 8,000 SKUs in them. So we don't put everything in there. There are certain things that don't lend themselves that bulky paper towels is an example or fresh meat.

But the important point is that roughly 80% of customer orders can be fulfilled with those 6,000 to 8,000 SKUs that are in the MFCs. It gives us a great opportunity to be much more efficient versus one of our associates going through the store, getting in the way of other customers, trying to manually pick these baskets. And so, these are opportunities in our business to drive huge savings over the next several years?

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Time to talk about the second P&L. So, first, we understand Connect, Luminate, 3P. We accept that they're faster-growing, they're higher margin. You start to see that. Why should it flow to the bottom line? You're a retailer in a competitive space. Why not reinvest? And how do you know your decision set won't be different in a couple of years when these are hitting their stride?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Well. So, we talked about this profit inflection for us, and that's been the most common question that I've received is, like, well, why won't you invest in all the things that you have in the past, technology, your associates, even prices? And the answer is we will, we absolutely still will. Our plan contemplates ongoing investment in our associates, ongoing investments in our prices, ongoing investments in technology and many other things. It is such though that the gap that we have in many of those areas or rather, more accurately, I should say, the gap that we had several years ago doesn't persist today. We feel like we're in a much better place as we sit here today, and that step change is not necessarily needed. But the second aspect is that the benefits of all of these businesses so far outweigh these investments that we can achieve that kind of outcome in our business with our operating growth or operating profit growth.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Honing in on Advertising and Connect. I think that gets the most attention as the most material alternative profit driver. Can you talk through the approach how it can continue to compound where you are today and where we can go to?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Well, so advertising is – it's a relatively small part of our overall business today when I talk about profit contribution, but that is something that should, more or less, mirror our growth in our marketplace and eCommerce business. The two are very much tied together. And look, it's not unreasonable to pick our head up in four, five years and this could be 20%, 25% of our profit growth. So, we're excited about that, particularly when you consider the margin profile of that business.

But at the same time, I think it just can be almost a drug for some. And we want to do this in a very responsible way that is customer-first. We don't want customers coming to our website and searching for something and they've got to go to a second page of search results before they get something that they're looking for because there are so many sponsored ad. I think there's a right balance there. And I think we can thread that needle and serve our customer in the way that they want to be served or members in the way that they want to be served, but also see the impact on the P&L.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

You teed up Sam's and I think International. They're relatively underappreciated, I think can argue five years ago could be a little more ignored as part of the story. Now, they seem to be gaining momentum. So, what would you encourage investors to focus on their top line profit and how should we think about it?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. So, I'll take each individually. I'll talk a little bit about International, but the profit and sales growth I think there are really encouraging. Part of that story is Flipkart and PhonePe. And for those less familiar, Flipkart is a marketplace business in India, PhonePe is a payments business. I think they are each outstanding companies in their own right. Great management teams. They've got a very strong value proposition that resonates in what is the largest market in the world in terms of number of consumers.

And so, those are exciting businesses. And each of them is on a – some path at some point to likely like an IPO or going public. And as they inch towards that, you'll likely see improvements in profitability as well. And so, part of the improvement in our P&L is the reduction of losses in their P&L as we consolidate, and both of them have executed very well and I've got high degree of confidence in their ability to continue to do so.

China is another market, and I could go country by country. I won't do that. But I was just in China a month ago. That is a business that for us is roughly 50/50 in terms of physical and digital. Some of our best-performing stores are in China. We've got a value proposition particularly in grocery that really resonates particularly with our membership in Sam's over there.

With Sam's specifically and US Sam's to be specific, there are few things that stand out about that business to me that I think are really encouraging. One is just the level of assortment, like we're really improving our assortments there and that's something to be very excited about. Our merchants are excited about it and our members tell us that as well. But the other is, I guess, broadly like what we're doing digitally. And by that, I would say both eCommerce, but also the in-store experience that we have digitally. And so, eCommerce growth for us at Sam's was in the mid-teens, I think 16% in the most recent quarter. And that I think stands out in that type of platform. We're serving our customers the way that they want to be served.

But the other thing, I love this aspect of the business is what we call scan & go. And if you're not a Sam's member, you may not know what that is. But this is the ability of when you go into a store to use your mobile phone and to scan items and then skip checkout, we have roughly about one in four – almost one in three transactions are done this way. You probably know stats on this better than I do, Simeon, but that's a very high digital penetration for a brick-and-mortar experience.

The NPS on this, on scan & go is 90. There are few things that have a 90 NPS. So I'm excited about this. And one of the reasons I get excited about it, because we talk about ourselves as an omni retailer. To me this is a glimpse into the future, where the lines increasingly blur between physical and digital. You're seeing a digital type of experience in store, and I think you're going to continue to see more of this in the future. And Sam's is a good example of that right now.

Simeon Ari Gutman Q
Analyst, Morgan Stanley & Co. LLC

Flipkart, PhonePe monetization, they've on paper been incredibly great investments. You weren't at the company when they were made. Is there a timeframe or it's a moving target and you continually evaluate it?

John David Rainey A
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Is that your way of saying I can't take credit for any of that?

Simeon Ari Gutman Q
Analyst, Morgan Stanley & Co. LLC

No, no, maybe you have a desire to make them move quicker given how substantial they could be?

John David Rainey A
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Look, I don't want to put a timeframe on it. I'm actually going to India to meet with the teams here in a couple of months. And it's something that we talk about. I think there is a process to that and we want to demonstrate the improvements that are probably needed in the P&L to get there. But these are two companies that by themselves could be very, very attractive from a market capitalization perspective.

I talked a little bit about Flipkart. PhonePe, like, PhonePe is doing an amount of – the equivalent in their business is TPV, Total Payment Volume versus GMV in our business. They're doing roughly 1.3 trillion with a T in Total Payment Volume. And that is at the same scale as the largest fintech players in the United States. Like, to put that in context. That have market caps there, in some cases, north of $100 billion.

And so it puts a framework around maybe how to think about these businesses. Their market share is extremely large. Again, it's a network business. And so, size and scale tend to strengthen that over time. And so this is, I think just by itself a very exciting business, which is different than I think a lot of people have exposure to, who focus more on retail being a fintech business. But we'll do it when it's appropriate and appropriate for those companies, but we're really excited about both of them.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

We've been so attentive to the second P&L. There's a third one that's hiding, fintech, healthcare and GoLocal. Are those material? Where are those in their journeys?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
A

So early on – earlier on, certainly, I talked a little bit about fintech. We've got a portfolio of assets in fintech. We talked about PhonePe which, I will argue could be one of the leading payment companies in the world, certainly outside of China in the near future. We have Cashi down in Mexico, which is our payment service down there. And then, here in the United States, we have a JV with Ribbit Capital, called ONE. We had a board meeting with them yesterday. I love what the team is doing there from a design perspective. The technology is great. They're building in a way that is durable and allows us a lot flexibility.

But importantly, when you think about our right to participate in fintech or financial services, there's a large part of the world and certainly the US that are underserved financially. And we see a lot of that customer demographic. And so I think it gives us the ability to participate in this space in maybe a way that others don't. We have customers that come to us today that want to remit money to a loved one in a foreign country or pay a bill that way. And we can digitize a lot of the services that we do physically today. ONE is the platform for that.

And even if you look at – if you go to the Walmart App, like, it's more cumbersome than it should be when you're attempting to use our financial services. So I think there's an improvement there that can not only drive improvement in financial services, but also see the halo effect of that on retail. So I'm excited about fintech.

Healthcare, we are a very large – that's a very large part of our business today if you think we're the third largest pharmacy in America. We are starting to experiment with care. We have 48 clinics that we have in some of our stores today. And we're learning our way through this. This is a huge market. It's roughly 20% of US GDP. And I think most would agree that healthcare in general is far from optimal in our country.

Again, I think our value proposition of helping people save money and live better, our brand, our customer base, our footprint, even in some that are underserved from a care perspective, perhaps give us a right to participate in this space. But I think it's earlier on and it's a big enough space that we don't want to get it wrong. So we're taking a very measured approach with how we participate in care.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

This will be my last question, and I'm going to trade out the capital allocation one to a personal one to close. So you've been at Walmart a year and a half. Can you talk about what's been most challenging, most surprising on the positive side, and then what are you most excited about?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

So, probably the most challenging aspect has just been the time period that I joined. I joined last year right during the throes of some of the supply chain issues that were facing retail. And it's not as if things got a whole lot easier. Then we got into the aftereffect of that with higher prices. And so I think it's been far from a normal environment in retail. Maybe that's accelerated the learning curve some, but it's been a challenging backdrop to operate in.

In terms of what I'm excited about it, I'll repeat a little bit about what I said earlier. But I think we are positioned to be one of the primary omni channel retailers in the world. We have a unique ability given our set of assets, our store network, with what we're doing with eCommerce, the fact that we already have hundreds of millions of customers that shop us today and that our value proposition that stands for convenience is as strong as it is for value. I think we have a unique opportunity to win in this space and help define the next chapter of retail.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Appreciate you sharing how Walmart is transforming that. Thank you for being here. Good luck in fourth quarter and next fiscal year.

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Thanks, Simeon. Appreciate it.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Thanks. Appreciate it. Yeah.