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Walmart, Inc. (WMT)

Barclays Global Consumer Staples Conference

CORPORATE PARTICIPANTS

Chris Nicholas

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

OTHER PARTICIPANTS

Seth Sigman

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Seth Sigman

Analyst, Barclays Capital, Inc.

Okay, great. All right. We're going to get started here. Good morning, everybody. My name is Seth Sigman, and I am the Broadlines, Hardlines, Food Retail Analyst at Barclays. It's our pleasure to have Walmart in attendance here again this year. And with us, we have Chris Nicholas. He is the President and CEO of Sam's Club. In the audience, we also have, Steph Wissink, SVP and Head of Investor Relations.

Chris, you've been with Walmart seven years.

Chris Nicholas

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

Eight now.

Seth Sigman

Analyst, Barclays Capital, Inc.

Oh, now eight.

Chris Nicholas

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

Now eight.

Seth Sigman

Analyst, Barclays Capital, Inc.

So, he first served as the CFO of Walmart International and then the CFO of Walmart US. He's also been the CEO of – sorry, excuse me, the COO of Walmart US, before taking over as the CEO of Sam's Club about two years ago. He brings about 20 years of really broad and global retail experience, so it's great to have him here. Sam's has been one of the fastest growing segments within the Walmart Enterprise. A lot has changed over the last few years. So, thanks for being here.

Chris Nicholas

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

Yeah. You bet.

Seth Sigman

Analyst, Barclays Capital, Inc.

Would love to maybe start with some background on Sam's and talk through that evolution that we've seen over the last few years.

Chris Nicholas

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

Yeah, I'd love to do that, and thanks for having us. Sam's Club is a 42-year-old business and it still feels like a maverick kind of pioneering startup, even though we're a \$90 billion business. And I kind of love that. It's the spirit of how Sam's started the business. And that continues to exist today. We have a lot of commonality with Walmart. We are people-led and tech-powered. We get out of bed every day to help people save money and live a better life. Our culture and our values are the same, but we are a different model. And I really love the beautiful simplicity of the club model, which is curated assortment, and we only just breakeven on what we sell and we make all of our profit from membership income. And that's a really like profoundly powerful model because it means that every one of your days is spent working out how do you do things better for the member so that you get more members and so they renew more often. And that extreme value and that curated assortment is now being augmented, Seth, by eCommerce and by In-Club experiences that have not been common of the model until now.

QUESTION AND ANSWER SECTION

Seth Sigman

Analyst, Barclays Capital, Inc.

Yeah. We've seen a pretty incredible shift in consumer spending trends towards the Warehouse Club channel...

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Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

...over the years. Warehouse Clubs have outperformed quite a bit. Maybe talk about that from the perspective of Sam's, why do you think that's happening?

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Chris Nicholas

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

Yeah. I mean, it's def – we see that, too. I think it's a good time to be in the club channel. I think value is resonating really well. It doesn't matter what generation you are, it doesn't matter what income cohort, it doesn't matter where you live in the country. People really like good value and they like great items. I've been, I started in

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retail at the age of 14, so that's more than three decades now. And there's never been a time when customers and members haven't wanted great items and great value. And I think we're at the tip of the spear on that. The way we think about the opportunity at Sam's Club is around the member value proposition.

So, you have to win on great items at great value. And that great value is because we only just breakeven on what we sell. The great items bit is really important, though. We – because we have such a curated assortment, our merchants get to go really, really deep on the industries that they buy for and they spend a long time in those industries. And so, they get to do the hard work for the member of finding unique items, really incredible quality and bringing those to the member.

And so, you pay for access to a curated assortment at great value. And if you don't have that, you don't really have the underpinnings of what matters in the club channel. But beyond that, we think we can do more. So, the club channel, I think historically, has had this environment where friction in your shopping was a feature. It was friction filled because you got such great value. And what we are seeing and enjoying the benefits of is that we are building experience and taking friction out of the system, as well as having great items and great prices.

And the reason we're able to do that is because we're leveraging a lot of the capabilities that Walmart has already built. In fact, in my last job, I spent a lot of time building them. So, automated next generation supply chain, technology stack for your apps and for the back-end, real estate capabilities, transportation capabilities, last mile capabilities. These are all things that are in the background for our members. And as we leverage those, we don't have fixed cost investments, we just have the marginal cost of offering these services. And so, that allows us to have really uniquely differentiated In-Club experiences and an eCommerce business. And that's what we mean by experience.

So, a couple of little pieces and then I'll, move on. The In-Club, we have this thing called Scan & Go. We've got 40% of our members now and it's more at weekends and more in some busy clubs who scan their own shopping and then they just walk straight out through the computer vision arches. That is unheard of in retail period, let alone in the club channel. But it gets our members engaged digitally.

And then on eCommerce, our delivery from club business and our delivery business through our fulfillment centers is the fastest growing part of our business. And what's exciting about that is the prices that we charge people online is the same as In-Club. So, if you think about that for a moment, you have profoundly strong value on a curated assortment and we will deliver that to you at your home, if that's where you want it, for the same price as In-Club. And that's really, really hard to compete with if you get it right. And the reason we can do that is because we're leveraging that backbone of Walmart. So, I'm excited about that and it's paying off in terms of momentum. In Q2, we saw good momentum and so, the outcome is it's working.

Seth Sigman

Analyst, Barclays Capital, Inc.

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So, the foundation is in place. A lot of changes in the last few years, now ready for growth.

Chris Nicholas

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

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Yeah.

Seth Sigman

Analyst, Barclays Capital, Inc.

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So, at the recent investor conference, you talked a lot about the growth opportunity for this concept.

Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

Maybe walk us through how you're thinking about that?

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Chris Nicholas

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

Yeah. Yeah. Great. Thanks. I think, we see a lot of opportunity for growth. We're not a national business right now. We have, if you take the club channel that we talked about is growing faster than traditional retail, it's like about 7% share. So, it's nascent, you might argue. We see three major routes to growth. The first is organic. We are doing a really good job with great items. But we're also in this process right now of remodeling our fleet. Those of you that have been to Grapevine in Dallas, you'll see what the future of our remodel fleet wants to look like. And that looks modern. And it looks fresh and it looks omni-channel. And so, that grows consideration and grows membership in the environment where we already have clubs.

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The second part of the growth journey is new clubs. So, we stopped opening new clubs in 2017 and a month ago, we opened our first totally brand new club number 601. That's not the club number, that's our 601st club in Arizona, in Tempe, and it was a really exciting moment because it's us growing clubs in places that have, that are growing where there is a large population, where it feels affluent and it's – our clubs are very relevant in that space. It was 118 degrees, the day we opened that club and the people are queuing around the corner for hours. We were keeping them hydrated and entertained, but still, 118 degrees is a big ask.

And then, the third. So, we are – we've got 30 clubs in the pipeline. That's what we said we would do. But our ambition is to grow to about 15 new clubs a year. Now, we're building to that. So, we're not there just yet, but we'll get there. And certainly, leveraging the Walmart real estate capabilities in terms of what is helping us do that as fast as we can. And you can count on with those new clubs, by the way, is they're incredibly high returning. So, we feel really good about the opportunity and the returns we get from them.

You might expect me to say that with my CFO background, but it's really important to us. And then the third part, which is a huge part of our growth, is eCommerce. And that eCommerce growth is something that we can hardly keep up with, even though we're growing really fast. And our job is to work out how do we grow as fast as we can sustainably with eCommerce. And people really want it. And that is whether it's club pickup, whether it's delivered from the club or whether it's delivered from a fulfillment center. We see about 18% of our sales are eCommerce today. That's grown rapidly, and we expect that to be 40% and then, beyond 40% over the years to come. And the members are asking us to do more and to go faster in that space, and that is the future.

Seth Sigman

Analyst, Barclays Capital, Inc.

So, let's unpack some of that. If you think about unit growth, getting back to unit growth, that's obviously, quite incremental. What's different about the process today and what enables you to open up the stores? What have you guys changed as you think about that?

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Chris Nicholas

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

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Yeah. I think historically, we – I mean, in 2017, when we opened our last club, I think, we made a decision that we needed to really double down on the business model, and we made some really great decisions on getting back to model with the club. We took Member's Mark from 26 different owned brands to one, which is a great decision. We put merchants back at the heart of the decision making. We paid our associates better. We shut some clubs, and the reason we shut the clubs is that, it's really important as you grow new clubs, that you also trim those where maybe the community has moved on and maybe you're cannibalizing sales from other clubs too.

And those changes create a foundation that got us to a place post-COVID, where we were able to sit down and say, what do we need to do to start growing really fast? And I tell you, the communities that we're not in today, I get so many letters, physical letters and emails today from communities telling us they want us there and we agree with them.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

Yeah. And I guess, one of the questions we often get about the club channel, there's been a lot of growth, the runway for future growth. How do you think about cannibalization? How do you think about competitive overlap and just what that path is?

Chris Nicholas

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

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Yeah, it's a great question. I mean, I mentioned a minute ago, but – the total club channel is like 7% share. So, there's a huge opportunity and that opportunity is in physical clubs. So, we see – we're in lots of places. Of course, we've got 601 clubs, but there are so many parts of America where we just don't serve potential members with the clubs that they want. And we see that need and that want and that desire for what we're offering the items and the value. Speeding up, not slowing down. And that total addressable market is tethered to clubs often. But one of the things that we've got with this eCommerce business, that's the extended assortment, that's still curated. This is, maybe 20,000 items, not billions of items is that, we get through leveraging Walmart's next generation fulfillment network and transportation. We get access to next day and two-day delivery nationwide for these incredible items that we have.

And if you think about that for a moment, like for the first time in the club model, people can get access to Sam's Club items at Sam's Club prices anywhere in the country. So, we start to see this total addressable market become much greater than this, than maybe what it was traditionally seen as. And I'll give you two data points. The first is that the fastest growing cohort of members that we have are Gen Z and Millennials. These are young, small families who are getting at the beginning of their journey and they are opting into us. And I think they love the value. They love Member's Mark. They love brands when they show up with great innovation. And they also love the digital engagement that we offer. And I think that's an exciting journey for us that we've got that new generation interacting with us.

And then the second data point I'll give you is, you should move on from the idea that the club model is like you turn it once a month with a flat bed and fill it up and, stick it in the back of your truck. The fastest growing shopping trip for us is the convenience trip. It's – I need to buy something for dinner tonight and I'm going to buy some mac and cheese. And I probably need that bottle of wine to go along with it. And maybe a couple of other things too. And that idea of being able to get in, scan your own item, walk out without queuing, walk out without any friction, is changing the way that people are shopping. And if you think about like home meal solutions and all

of those things, that really compounds that. If you take that and then add on delivery from club, that takes it to a whole new level.

Seth Sigman

Analyst, Barclays Capital, Inc.

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Since you're on delivery, let's go back to the idea that eCommerce for you can grow from 18% to 40%.

Chris Nicholas

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

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Yeah.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

Over time.

Chris Nicholas

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

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Yeah.

Seth Sigman

Analyst, Barclays Capital, Inc.

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Very ambitious goals?

Chris Nicholas

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

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Yeah. I've always found that the best way to set an ambition is to work out what the members want and then try and meet them there and then work out how you solve the economics to be sustainable. We've got a leg up because of the Walmart, densification and networks and capabilities. But it's not a gift. This will be an achievement when we get it. And I would say 40% is probably a stepping stone to more than 40%, it's even higher than that already in China.

The idea of what we're trying to create here is that, the club model is an engagement business. People will renew more often and will advocate for you to other potential members online or in their community because they're more engaged. And eCommerce is just a huge unlock for engagement. We see people engage with a digital experience, whether that's your app in the club or whether it's you're at home and you're shopping or wherever you happen to shop on your phone. That your engagement with us is 3x stronger, and you are significantly more likely to renew as a result of it.

So, as we build this digital engagement with our members, you strengthen the value of the annuity of the Sam's Club business, and that's something that should be very exciting for you guys. I think, the most recent quarter we did 26% growth, two-thirds of our total Sam's Club growth was e-commerce, and 50% of that was delivery. The express delivery that we're offering, which today is only, is a 3-hour proposition which we'll deliver to you in 3 hours, is it grew 185% last quarter. And we're just getting going.

And as we've got some more work to do on the leverage before we're fully leveraged with the Walmart backend. But you can count on things like very fast dynamic delivery being part of our value proposition as we move

forward. And that is very important. As important is that we offer price parity online with In-Club. The trust that, that builds with our members is incredible. And if you think about this, if we grow our business at parity to 40% of our sales and it's economically viable to do so, which it is, then what you do is you create this moat that's really hard to disrupt. And I'm really excited to be a part of it.

Seth Sigman*Analyst, Barclays Capital, Inc.*

You've opened up more of the assortment to delivery.

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Chris Nicholas*President & Chief Executive Officer-Sam's Club, Walmart, Inc.*

Yeah.

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Seth Sigman*Analyst, Barclays Capital, Inc.*

I think that's part of the express growth that we're seeing. Maybe just talk about some of the categories where you're seeing really good engagement with the consumer?

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Chris Nicholas*President & Chief Executive Officer-Sam's Club, Walmart, Inc.*

Yeah, I mean, there are some basics in retail that really matter. There's this whole saying, retail is detail. We kind of agree with that. There were some things that got in the way of us running a great retail business, like we couldn't pick variants of things in-store. So, if you were In-Club, so if you wanted to buy some apparel, you couldn't buy it and have it delivered from club because you couldn't choose between small, medium, large, extra large or different colors. Now, you can. And suddenly, apparel is a huge growth engine of our business because we've enabled it. We're enabling more and more of our club assortment. It's almost entirely the whole assortment now and you'll see that really come to life with our fresh business.

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So, we're seeing real engagement with the delivery of fresh prepared meals, prepared In-Club, by the way, incredible value that gets delivered. And the most recent example I've got is pizza. So, we were in a club in Cicero and the club manager said, why don't we deliver pizza and we like to do things fast, Seth, in Sam's Club. I mean, the Computer Vision Arches, we got that rolled out in a year. We just replatformed our entire app ecosystem in a year. Well, this we did in a week. And so, we gave – let's become a pizza delivery business of scale in one week. And we did it. Now, the first piece that we delivered was a cooked chicken. So, that – but actually, that's okay. Like we failed a little bit, but we failed forward and then we fixed it and then we didn't deliver any chickens anymore. And what's really exciting about that is it's more occasions. People don't just buy a pizza, they're putting other things in their basket. And so, the size of the basket is 10x, the pizzas they're buying and it's at Sam's Club prices. And we are seeing like all of these little use cases making a massive difference in terms of engagement and with Express, people pay to take part in that over and above their membership. So, it becomes the most convenient and the most economical for us.

Seth Sigman*Analyst, Barclays Capital, Inc.*

Sure. And you mentioned this earlier, how Sam's can leverage the Walmart enterprise infrastructure.

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Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

And there's a lot of change happening right now. Maybe talk about that from a supply chain perspective, technology perspective. And if there's a timeline that we should be thinking about as you integrate that into the Sam's business?

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Chris Nicholas

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

Yeah, it's a really good. So, here's the thing. It's really important to when we show up to our members that the members feel like we are showing up with the things they care about as Sam's Club members. And that will never change. But the back end, they don't care. They just want it to be efficient, well thought through with the features they want and not have as a result of that having to pay more.

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And so, when I came into the Sam's Club business, it was clear that everything we just built in Walmart, the technology for eCommerce, the supply chain ecosystem for eCommerce, real estate, whether that's sourcing of new sites or whether it's construction or facilities maintenance, the Spark last mile delivery network and the Shopper Network, the middle and first-mile delivery networks, all of the sourcing, all of these things Walmart had already spent a lot of money building and are continuing to do to build these big pieces of infrastructure. And it made sense for the enterprise, but also for Sam's Club and for Walmart individually to leverage these, because the fixed costs are already in the system. So, the more density we're able to put through all of those assets in that entire ecosystem, the better it is for all of us.

And so, it's allowed us to make a generational, transformational shift in capabilities with Sam's Club in a very short period of time. And it would have taken us a very long time to get to the kind of capabilities that we're going to get in a matter of years, like months. And we've done a lot in the last year. And next year, we'll be pretty much done. The thing I would say, though, is it's not just a one-way street.

So, Sam's Club, we developed a lot of really interesting capabilities, especially in personalization of membership, especially in computer vision and the application of AI at scale in physical environments. And what we do is we develop these and then we push them back into the platform too. So, the whole enterprise benefits both ways from the innovation cycle.

Seth Sigman

Analyst, Barclays Capital, Inc.

Great. I guess, the other angle here is advertising. Can you talk about the opportunity with Sam's MAP program and how to think about, how that could be different than other advertising opportunities within Walmart?

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Chris Nicholas

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

Yeah. MAP stands for Member Access Platform, it's our ads business and – but we'd like to sort of make a point of the fact that you're getting access to something different, which is membership data. We have very rich data because we have this closed loop system of we know who is in the system, we know who's shopping with us, we know what we've advertised to you, and therefore, you're able to bring that together into something that's very

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valuable. And we're just getting going. The – maybe just to brag on the team a little bit, we've got this – we've got a team – a member science team, we have a Chief Member Scientist. It's a new role. And they are bringing together for the first time \$200 billion, billion with a B, different pieces of data about our members that doesn't include the transactional data into one big neural network, and that allows us at-scale to be able to personalize two members differentially, no matter where you are.

So, a good example of that would be In-Club. If you're shopping with your Scan & Go, we will serve you a personalized ad whilst you're shopping and the uptake on this is insane. And of course, that's incredibly valuable to our supplier partners who want to be a part of that conversation. And if you think about, we're at 40% and growing rapidly from a Scan & Go point of view, the kind of value that that creates for our supplier partners and people that would want to advertise with us is just incredible.

And by the way, this is member-augmenting. So, the best way to help people see what you've got and to introduce them to new brands and to innovation and to things they weren't quite thinking about is by advertising. This is not a – this is not – this is something very accretive to the member. And so, I'm excited about that. We grew at 24% last quarter. I think we've got a lot of opportunity ahead of us.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

Okay, great. Shifting to merchandising. So, you talked a lot about curated assortment. How has the assortment evolved over time? How are you thinking about the role of national brands versus Member's Mark?

Chris Nicholas

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

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Yeah, merchandising is totally at the heart of our business. I spent so much time with our merchants and with our supplier partners and it's exciting. If you think about what we do, having 4,000 items in a club and having merchants that have got so much depth of understanding and capability creates this really unique environment, where like new innovation is fighting for space with the stuff that's already there. And so, it's this natural cadence of just continuing to get better all of the time.

And the better we get with our capabilities, with how our clubs look, with the success of brands, the more brands come and join as part of that journey. I was really excited, we just had a holiday meeting, which is something where we get all of our merchants and operators together to talk about what's there for the holiday. We've got 50 new brands just in the last quarter in general merchandise and some of them are just incredible. They're brands you wouldn't expect. And what I love about that is that they're a disruptive value because you think about general merchandise, generally that would mix higher, like you make more margin in general merchandise. But in the club model, you don't. You earn the same, whether you're selling packaged food versus selling general merchandise and the disruptive value that you get to give to people, especially at a time like, the seasonal holidays where you want to delight and you want to feel good about what you're buying, we're feeling really excited about that.

And we love to be a house of national brands, but we have a really, really high bar for innovation and for quality. And in particular, we fall in love with selling units versus dollars. So for us, like we spend all of our time talking about unit growth versus dollar growth because inflation is not the route to driving engagement.

And so, the thing that we spend a lot of time on is helping our supplier partners understand the engagement and volume is if you want that, come work with us and we'll work with you. And we have a lot of very productive conversations in that space. But I would say, right now, the Member's Mark is growing faster than the national brands. And that's not because we have a strategy to grow one faster than the other. That is a choice that our

members are making. And I think some of that is innovation, a good part of it, and some of that is value. And I might just brag on the Member's Mark team a little bit. You may have seen that we announced recently that by the end of this year, we'll have 100% of our Member's Mark food items made with our whole list of ingredients, including things like aspartame and artificial colors and artificial flavors and a whole series of things that are just not good for you. But it's been really hard. It's been a bunch of years.

The hardest thing to solve was the red coloring and the dye on top of cookies. And we finally got over it. So, there we go. And they taste great too. So, I'm excited about that.

Seth Sigman

Analyst, Barclays Capital, Inc.

Bring samples next year.

Q

Chris Nicholas

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

I can't believe, we didn't bring you samples.

A

Seth Sigman

Analyst, Barclays Capital, Inc.

Yeah.

Q

Chris Nicholas

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

We promise to do that next year.

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Seth Sigman

Analyst, Barclays Capital, Inc.

So, innovation...

Q

Chris Nicholas

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

Or please, just buy them.

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Seth Sigman

Analyst, Barclays Capital, Inc.

We'll just – Innovation, obviously, is such an important part of the merchandising story on the general merchandise side.

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Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

Several quarters of positive growth here.

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Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

You've been an outlier from that perspective. How do you think about the upside in general merchandise as you look out?

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Chris Nicholas

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

Yeah. That's a great question, Seth. It's profound, the size of the opportunity we have in general merchandise. We are in our fifth quarter of positive comp growth, even in a deflated environment. You can think about that and the point I made on units, the units are moving faster than the comps, which is really healthy. But – and general merchandise is winning, whether it's Member's Mark or it's the branded items. I would argue that we have so much opportunity for really high-quality general merchandise brands, and we're finding whether that's online, where we're testing some stuff or whether that's earned its way into the club, because the very best items will earn their way into the club.

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And I can tell you just from personal experience, there's a lot of CEOs I've spoken to recently who are really excited to be part of the club channel, especially as they think about the enablement through eCommerce. And so, I'm excited about that. I think this idea right now of general merchandise value, that means that the differential between what you pay in the market and what you'll find the value is in Sam's Club would pay for your membership with just one item is kind of disruptive and it's something you all should pay attention to if you're looking at the club channel because this idea that I'm going to be a member, but the cognitive load of should I renew disappears when you know you just bought one general merchandise item and it just paid for your membership. We had the VEJA sneakers in our Tempe, Arizona club. They sold out in minutes. And every single person that bought those, that just paid for their membership in terms of their value that they got. Pokemon yesterday. We – if you managed to get Pokemon to Sam's Club yesterday, congratulations because they sold out before I managed to get them for my boys.

Seth Sigman

Analyst, Barclays Capital, Inc.

There you go. We talked a little about technology earlier, but I want to focus more on AI...

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Chris Nicholas

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

Yeah.

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Seth Sigman

Analyst, Barclays Capital, Inc.

...specifically in how that's changing how you guys run the business?

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Chris Nicholas

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

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We're really excited about it. We've been using AI forever, not forever, but for a long time right now that we've always understood and valued the power of data. But that was back in the day, it was machine learning. And now, it's something profoundly different. We feel really clear that the technology that we use and leverage, whether that's the software that we're building, the automation that we're using, or the artificial intelligence that helps us augment the route to our customers and members or the route to making our associates' lives easier, needs to sit within one framework that really matters, and that is that we are people-led and tech-powered. And that's really important because it means that you're using the technology in service of people, in service of your associates, in service of your members to allow them to have an elevated experience. And I think, that's really exciting.

If you think about In-Club, for our associates, we removed last year 200 million tasks and we'll do the same again this year by leveraging computer vision and AI to give people information on their devices. That means that they don't have to do mundane work that they otherwise would have had to do. And what does that mean? It means that they then get to spend time on the things that they really want to be spending time on building connections with each other, connecting with our members, giving our members the experiences that they deserve, and also helping us build some of the other newer businesses like services and like eCommerce.

And what you find when you give people this more meaningful work is that your turnover drops and you get better service. There's this really cool example, which is that if you're a first year member and you have a positive interaction with one of our associates, you have 500 basis points more likely to renew. Isn't that a cool number?

Seth Sigman

Analyst, Barclays Capital, Inc.

It is.

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Chris Nicholas

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

So, this idea of building connected experiences starts with what you give your associates to do because you need to create the experiences, allow them to serve the members, but allowing the members to exist in an environment where you seamlessly connect In-Club, the Scan & Go experience, computer vision with online, and them shopping on their app or on their desktop if they want to do that. And those two things being one connected experience that allow – and we, because we know you better, we get to serve you better. That's all made easier through AI because instead of us having a bottleneck of a list of a thousand things that we really wanted to do, but we had to work through them one by one, we're finding a much quicker route to market.

And there's maybe just two conceptual things, I would say. The first is that we will always look to the first job of AI is to drive growth, and that means to drive more engagement, solve more problems for our members, help serve them better, because we know them better. And Agentic Commerce will be a really big part of that and we're super excited about the innovations we're already seeing in this space.

And then, and not just as important because you've got to get the first bit done first, but we also see it as a big driver of efficiency cost out. And of course, the benefit of efficiency and cost out is it makes you be able to run better, but it also increases your speed to market for innovation.

So, that's really exciting too. Last week, at our holiday meeting, we decided to give access to our field management of ChatGPT Enterprise. So, they were able – they're able to put enterprise data into this tool and they're able to use it however they see fit. And we've created this environment of like tell us what you're doing, tell us what problems you're solving. And we didn't go to them with, here's the 50 things that you need to do. We've

said like, help us. We've inspired them a little. We've helped them understand how to prompt and how to do some of the valuable things like that.

But we're seeing already these really cool examples. I'll give you one. Something that's really important to the club model is to understand what events are happening in your environment and to knowing what local items you should be selling because those events are happening. And previously, what happens is you get a club manager who calls our merchant and says, hey, I've seen this item. I'd like some of it. What happened in the last week is that the club managers find the item they want because they've asked ChatGPT, then ChatGPT does the research for them. It tells them who owns the business, it tells them what their phone number is. It tells them, everything you need to know about the quality of the item, where it's manufactured and they're sending that to the merchant. That's a very different conversation. And imagine the empowerment that people feel as field management that they have a tool that allows them to know as much as the merchant and then serve that up in a way that has them feeling like they're running their business.

I think that's things like that are profound change, they may sound small, but actually, they're quite profound. So, we feel really excited about the leverage of technology and then the speed and the access that comes on the back of leveraging artificial intelligence.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

That's great. Maybe, Chris, in the last few minutes, we'll address some of the more current topics, tariffs. How Sam's has managed to date? Obviously, you have some unique levers, love to sort of hear about how you're thinking about that?

Chris Nicholas

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

A

Yeah, I think, I'd say it's a surprise that that came up.

Seth Sigman

Analyst, Barclays Capital, Inc.

Q

We waited till the end.

Chris Nicholas

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

A

So, here's how we think about it. I think I mentioned a little bit that Sam's is kind of in a unique position because we have this this curated assortment and we have a really deep knowledge with our merchants. And so, as our merchants think about what they sell, they're constantly thinking about the member and the problems that their members are trying to solve. And so, that gives them this unique ability to say, I can decide what I stock depending on how I feel like the member is feeling.

And so, they get to shift items in and out depending on what they think is going to sell. They also because they understand with real depth global supply chains they get to think about country of origin, they get to think about removing waste throughout the supply chain and the Home Office and through our clubs.

So, we'll work really hard at taking waste and cost out. And we work that with our suppliers too. I've personally been in a bunch of conversations with CEOs of our big suppliers where we're working through how do we take cost out of the system by working better together. And only when we've been through all of those things, will we

decide that we have to pass some of that cost onto our members. I would tell you that, like in general, members are pretty rational. The consumer behavior is pretty consistent. And so far, the impact from tariffs has been fairly muted. We're in an environment, I think, I mentioned this, where general merchandise is still a little deflated. This is a Sam's Club point and food inflation is a little inflated. Q2, the results we just announced recently, our 5.9% comp, which by the way, has got no new club comp growth in it. That's a pure comp number, was all driven by units. So, you can see that price isn't yet passing through, but we will start to see some of that gradually flow through. But we are quite uniquely in a position where we get to manage that really proactively.

The thing I would say is that, we are very focused on inventory health. It's very important to us that we understand what we own, where it is, we're making thoughtful, conscious buys in ways that mean that we don't create problems for ourselves into the future with elasticity of demand changing. But we don't see that on the immediate horizon as something of a big concern right now. Yeah, and our inventory is in really good health.

Seth Sigman*Analyst, Barclays Capital, Inc.*

Q

Yeah. And you mentioned price gaps earlier, have they been consistent or have you seen any change?

Chris Nicholas*President & Chief Executive Officer-Sam's Club, Walmart, Inc.*

A

Great question. On price gaps, we feel really good about the value proposition that we have on price at Sam's Club versus our competition. And the thing I would say, that's kind of interesting to me is that the bigger we grow eCommerce at parity with prices at parity with club, the bigger our de facto price gap grows. And so, you should feel good about the value that we create, as we start, as we continue to grow eCommerce. I think, we – our merchants will fight every day to keep those prices low. And we are structurally in a place where we will continue to de facto invest in price by growing the right channels.

Seth Sigman*Analyst, Barclays Capital, Inc.*

Q

Okay, great. In the last minute or so, any final thoughts or closing comments?

Chris Nicholas*President & Chief Executive Officer-Sam's Club, Walmart, Inc.*

A

Yeah. Thanks for giving me the time. I think it's always fun to talk about the business and especially when we feel like we're on the front foot. It's a great time to be in the club channel. And for all the reasons I've talked about, we've got great momentum. You were at the recent Shareholders' Associates Meeting. I think it's fair to say the excitement was palpable from our associates.

Seth Sigman*Analyst, Barclays Capital, Inc.*

Q

It's pretty amazing.

Chris Nicholas*President & Chief Executive Officer-Sam's Club, Walmart, Inc.*

A

It's pretty loud.

Seth Sigman

Analyst, Barclays Capital, Inc.

Thought you were going to talk about Willy Wonka, but...



Chris Nicholas

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

Oh, yeah, I did dress as Willy Wonka on the stage. That didn't help with them. They were very loud and energized. And that's our field that really feel that. I think probably what I would love to leave you with is that my main focus with the teams right now is how we move faster in a sustainable way. So, this is a really good moment to be in. We have all the factor conditions going for us, and our job is to just work out sustainably how we go faster.



Seth Sigman

Analyst, Barclays Capital, Inc.

Awesome. Thank you, Chris.

Chris Nicholas

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

Thanks for having me.

Seth Sigman

Analyst, Barclays Capital, Inc.

Thank you, Steph. Appreciate it.

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