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MANAGEMENT DISCUSSION SECTION

Gregory Scott Melich
Analyst, Evercore Group LLC

Good morning. It's Greg Melich, I cover the retail broadlines and hardlines here at Evercore ISI. It's my great pleasure to have with us John David Rainey, Executive Vice President and CFO of Walmart, along with Steph and Kary, who I think a lot of you know well from the Investor Relations team.

So, John David, it's a pleasure to have you with us. We've got 35 minutes. I would love to jump right into questions if you're okay with that.

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

Well, let's do it. I'm happy to do this, Greg.

QUESTION AND ANSWER SECTION

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Great. So, first, Walmart's had a lot of success on the top-line with traffic accelerating a 3% plus growth in a world where it's been hard to get volume and traffic growth. But help us understand, at a category and a geographic customer level, where the most traction is coming from and how you keep it going?

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

A

Sure. We've been really pleased with the progress that we've seen in an overall macro environment where pricing is contributing less to the top-line, we've been able to push units through. If you look at the composition of our revenue growth in the first quarter, almost entirely driven by units and so really pleased with that. That's indicative of how consumers are thinking about us. They're coming to us not just for value, but also for convenience.

Within each geography: the unit growth is more pronounced within Sam's and the US, a little less so internationally, but really pleased with what we're seeing there. I think, it's also important to note that a lot of that growth was coming through eCommerce. That's probably fairly obvious. But where the eCommerce opportunity for us is growing at 20% year-on-year consistent. We're just seeing a lot more customers that are coming to us in a manner that they haven't historically, where maybe historically we were more of a brick-and-mortar business. We're continuing to move more and more to eCommerce. And I think that speaks to how convenience is resonating with customers.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

That's great. And so, maybe to double click on that a little bit, eCommerce invigorated with 3P building. Could you also add in how Walmart+ and delivery could be putting that whole omnichannel linkage together to keep it going?

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

A

Yeah. We noted, I think, on the last earnings call that, about 20% of our operating income is coming from where growth is coming from Walmart+ and advertising and those obviously all kind of work together. What's great about Walmart+ is the behaviors that we see of those customers.

Notably, they spend about twice as much as an average customer. And so, we want more and more of our customers to use us in that way. They also, as maybe this is intuitive, but they tend to shop more frequently and also have smaller baskets. They're using us for those one or two items. Also, sometimes that maybe they historically would have thought about using another retailer before. And so, as we continue to improve our offering there, getting better at providing the merchandise assortment and the offering that customers want and improving our ability to deliver that to them when they expect it, we're continuing to see growth there.

One important aspect that I talked about on the last earnings call was, this metric that we have internally, we refer to as Perfect Order. And what this is, is when a customer or a member comes to our website, are they able to find the items that they're searching for? When they put those in the basket and we fill it, do we have to substitute because maybe we didn't have it even though we offered it? And are we able to deliver to them within the timeframe that we talked about? That Perfect Order score for us increased almost 900 basis points year-over-year. So this just really indicates how we're progressing, how we're improving here, and our customers responding to that. We're just getting much better at this eCommerce offering.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

And so, to shameless plug our own stuff, we have survey work that suggests we're about a 15 million Walmart+ members. Care to confirm whether that's true or not? And it sounds like they get a nice lift regardless of how many you have.

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

A

Yeah, I'll pass on that. But I'll say this, our success is not going to be solely determined by the number of memberships that we have. It's a nice complement to the overall opportunity that we have when we think about these other lines of businesses that tend to be higher margin, faster growing. And so, we want to continue to grow this, but we don't want to be solely focused on it where you've seen some others, maybe outside of the retail space that get really focused on consumer metrics growth in those areas. And as if that's the end all, be all, that's not the case for us. This is a nice complement to what we're doing. But we're not going to confirm or deny the 15 million.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Okay. Maybe pivoting to something else that you have talked about, just inflation and the squeeze that that has been on the consumer and mission impossible deflation, I think, was the message last year at shareholders. Now that inflation's kind of just down to zero, right, maybe you give us an outlook as to where – if that could actually go negative or do we think that inflation sort of bottoming at zero to one? What's your outlook there the rest of the year?

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

A

Overall, price levels to me feel like they're in an area that will probably won't change a lot in the next couple of quarters. It's different by what part of our business we're talking about. So, food is up modestly in terms of inflation. Consumables is about flat and general merchandise is down. And so, very similar to what we talked about that we saw in the last quarter where the overall basket of goods was up about 40 basis points year-on-year. That feels about where, I think, we'll probably land for a while here.

And we continue to see customers that are choiceful and discerning and not buying as much general merchandise as they have historically. What's important about this aspect though, is that we see progress in general merchandise that I think is more Walmart-specific versus a macro trend. That's coming through our marketplace. We have categories, our marketplace, where we're seeing 20%, even 30% year-on-year growth and being able to provide broader assortments that's offered by third-party is really bringing customers to our platform and one of the reasons that we see this growth.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

I want to get to that, but I also want to make – I want to go back on value. So, value and convenience you mentioned are so critical to Walmart and winning customers. Sticking on the value side, how do you see your price gaps today? Our recent works as a sort of low to mid-teens, do you feel like there's more opportunity there or do you like them where they are?

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

A

We like where they are today. I think, this is going to be a topic of conversation probably every quarter that we have. And it's dynamic, it's moving. There are certainly pockets where we think that it's prudent to invest more in those price gaps. There's other areas where we feel like we're very comfortable. This quarter, we have about 7,000 rollbacks in grocery alone. That's up 50% year-over-year. And so, EDLP is a big part of who we are and we want to continue to be a price leader there. But we feel good with where they are right now, overall.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

That's great. And you mentioned the convenience point being a big one. Could you maybe dive in a little bit more into how delivery? I think, it got up to like half of eCommerce in the first quarter, maybe sort of update us on what's driving that and where that goes from here.

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

A

Yeah. I'm glad you mentioned this, because internally, this was something that there was a fair bit of excitement around. We've done really well in eCommerce and that has skewed – over the last few years, and that has skewed more towards pickup. In the last couple of months, we've seen delivery surpass pickup and I believe that that's a trend that's not going to reverse, really speaks to how customers are thinking about this convenience factor for us. We're simply getting better at our ability to serve our customers that way.

One of the areas of delivery that we're really pleased with that is impacting in a positive way the unit economics of our eCommerce business is delivery less than three hours. We continue to see customers that are availing themselves of this option. And when you get that express delivery, sometimes customers will be paying more for that. That's – maybe I thought that that would be a little more elastic than what we've seen. And so, this is a big driver of some of the improvements that we've seen in the overall eCommerce profitability. And I love to see this with our customers and members.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Well, that's great. So, maybe that's the pivot to the – I'd like talk a little bit more strategically maybe and go around the world a little bit. How does Walmart's geographic footprint look today? I mean, there are a lot of countries that, years – over the last 5, 10 years, you've exited, but you've also lean into India and a few others. So, maybe update us on where the operations really have upside and where you're looking to invest.

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

A

Yeah. The headline would be that we like our geographic footprint right now, that obviously can change in the future. Being a company that's been around for 62 years, we've experimented in a lot of markets, Brazil, Japan, Europe. And we have figured out where our value proposition works really well and the reverse of that where it doesn't. So, there's not necessarily whitespace where we think that there's a particular markets that we need to go invest more in or put a physical footprint in. As I look at the international markets, two that stand out to me that I think are worth talking about are China and India.

In China, half of our business there is eCommerce and really pleased with what we're seeing specifically with the format of our Sam's Club. We just continue to see great growth there. And some of our best performing stores in terms of total revenue are in China or Sam's Club in China. India is the other one that is really exciting. We've got two formats there, if you will, one is Flipkart, the marketplace, the other is PhonePe.

Incidentally, I've spent the last few days with the PhonePe team. We're doing roughly a 1.5 trillion payment volume right there. And what I love about what that company is doing is given their user base, like, they see new cohorts are coming in, they're more engaged in the last cohort. The retention is greater, their transactions per active is greater. And so, there are all these trends that are just up into the right and we're talking growth that is, in some cases around 50% many of these metrics. And so, I'm very excited about that.

The other aspect about why what makes PhonePe so compelling is, they are not just processing payments. They're actually providing services to customers that give them eCommerce shopping opportunities, give them the opportunity to buy insurance and many other verticals. And given the engagement of their user base, we're seeing really great traction in this. And so PhonePe, I think is just a real coveted asset that we're glad to have as part of our portfolio and over the next couple of years both Flipkart and PhonePe, you'll hear more about as they move towards probably a monetization of that with an IPO.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

So that goes right to my next question, which is, if you look at the mix of businesses, not just the geographic area, where do you want to lean into investing more in the flywheel businesses? You know, is it advertising, is it connect, is it, you know, taking PhonePe to Mexico or now a new program in the US? So maybe just walk us through the mix of business on where the investment should go.

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

A

Yeah. Well, advertising is one that probably stands out, because of the margin profile, also because of the response that we've seen from our customers around that. We, as a percent of GMV are still kind of low single digits in our advertising business. I think, we have the opportunity to double, triple, maybe even quadruple that over the coming years. And the margin opportunity there alone is tremendous. So that's one that I think stands out.

Fulfillment services is another one. We have a very large percentage of our third-party sellers that avail themselves of this offering. Frankly, to me, if I'm a third-party seller, this is a no brainer because of the type of service that we provide and so we expect that to continue to grow. And then, you mentioned the expansion of PhonePe International and that's something that we certainly talk a lot about. I think there is whitespace around the globe where we can take your platform and their offering and perhaps expand that internationally. There's a lot of important things that they're doing within the market in India and that being the largest market in the world in terms of number of consumers that we don't want to lose sight of that.

But financial services is probably the area of our business that in terms of percentage growth, has the greatest opportunity over the next five years. Now, relative to the size of our overall retail business, it may be harder to kind of see that in the results, but the opportunity there in terms of growth is tremendous.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Maybe to double click on the last point there, you just recently ended the Capital One relationship. You know, what can you now do that that relationship has ended differently to accelerate.

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

A

Sure. Well, because of service level issues related to Capital One, we terminated that agreement. It did go to litigation, which was recently ruled in our favor. And so, now we have the opportunity to go issue a new co-brand credit card. I'm very excited about that. We're going through the RFP process right now with a number of issuers. And then that will be a complementary offering to the one joint venture that we have with Ribbit Capital within the US and credit is obviously a big driver of the opportunity there with our customer base.

And so, we're looking forward to growing that portfolio and lean heavily into that and a way that we really haven't – at a level historically. And so, we were talking earlier Greg and you were pointing out some areas where maybe we punch below our weight. I think, financial services is one of those within the US. So, I'm looking forward to sharing more about that progress in the coming years.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

I want to say, they're punching below their weight, in fact, there's been a lot of momentum, but Sam's Club the last few years, you see it with both the Scan & Go, the eCommerce business, just overall traffic and five-year comps. So, five, six years ago we were closing clubs. Now, we're opening them again. Just what's changed about Sam's Clubs IRRs, when you're looking at it as a CFO to now start reopening clubs again? And how do you keep driving the profitability there higher?

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

A

Yeah. The resonance with members, I think is something that stands out not in the most recent quarters, but if you were to go back the last three years, we saw something like 12 or 13 quarters of double digit growth. That's very compelling when we look at that overall business and when we're adding new clubs, the response that we see from members is really strong. Part of that is our offering. Part of that is the way that we offer things.

So eCommerce is important aspect of that. And there are certain things that we're doing within our Sam's Clubs that I think are really important related to the automation, not just automation that we're doing in our stores, but putting automation in the hands of the customer. So, the example that I like to provide here is Scan & Go.

Our penetration of buying members is almost a third in terms of Scan & Go. It's roughly 30% right now, I think, if memory serves me correct. Scan & Go should be the way to shop. In fact, like if you're shopping in our store not using this, it's almost like you're shopping us the wrong way. What's important about this is it's a much better customer experience and the NPS scores around this are 90.

There are very few things that I can point to that have an NPS score of 90. There are also few examples that I can provide of a higher penetration of a digital experience in a physical store. I think our number is probably comparable to what Starbucks are doing. And so, we're really excited about this and I think this is a glimpse into the future of how omni comes together with both – with the merging of these digital experiences in physical stores.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

So, I guess, the knock on then is that now you see more spots where you can put Sam's Club because you can basically underwrite an extra 10,000 or 20,000 members per club. Is that the way to think about it?

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

A

It's very much membership driven. That's exactly right, Greg.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

That's fantastic. I guess, I want to go back to something that you talked a lot about or we've touched on with data. It is a competitive advantage. It's true for all companies. And I guess, what are you best placed to win when it comes to using data and the scale that you have and all the data that you have? Is it in merchandising? Is it in quadrupling that advertising business? Where do you see the biggest opportunity from data?

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

A

Yeah. Advertise is certainly one that I like to talk about, because of the margin profile in that. But I think there's opportunities certainly within merchandising providing data to our vendors. We have a data aspect of our business that actually grew 100% in the last quarter. And I think it shows that the type of information that we have is really compelling to our vendors. But advertising maybe is the one I want to focus on here, because this is where the benefit of having both a digital and a physical presence really helps.

So, imagine if we surface an ad to someone online and when they purchase something online, you've got the lineage of surfacing that advertisement and seeing that transaction. What we have the ability to do with 5,000 stores in the US is actually also seeing when they go to a store, they buy something and we can connect that. That's really compelling to an advertiser. I think that's one of the things – one of the reasons why we're seeing some of the growth that we are in this category because advertisers are recognizing that they have their lineage between the transaction, whether it's offline or online, and there's really high fidelity around the advertising dollars that are spent.

And so, that's something that I'm really looking forward to. The VIZIO acquisition is just an extension of that. It provides us another channel to serve ads to our customers and then be able to observe what their behaviors are that follow the surface of those ads.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

I don't want to put words in your mouth, but if I – I'll try. If Amazon gets to 6% or 7% of their GMV as advertising, should we think of as a reasonable goal for Walmart, if you've got $100 billion of digital sales, that it could also be 6% or 7% or it sounds like you think it could be more than that?

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

A

Well, there are a couple of things to point out here. One is, we, as a percent of GMV, are low single digits right now and I do think that we have the opportunity to improve that dramatically. Amazon's, the composition of their business is more general merchandise versus food. And so, it stands to reason that you're going to see more advertising dollars flow through to general merchandise versus food. Like it's better to advertise for a pair of sneakers versus a head of broccoli.

And so, the composition of their business might give them the ability to have that number be a little bit higher. On an apples-to-apples basis, though, if you normalize for the categories, I think that we have the right to be every day big as what they are. So really excited about that.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Got it. So, we really shouldn't focus just on your digital sales, we should focus on your GMV as well.

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

A

Correct.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Got it. Maybe that's a nice pivot to margin. So, we've heard pretty consistently now your confidence on the ability to get the EBIT margin rate higher. I guess, how comfortable is the team with allowing EBIT margins to surpass 6% over time as you get this traction in different areas?

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

A

Well, certainly there's no cap that we have internally where we say, okay, we're going to get the 6%, 7%, 8% capping there, then everything gets reinvested in the business. Margins can go as high as they will be capable of. But I think what's important here is that, we don't want to find ourselves in a situation where two, three, five years from now, we recognize that we've under invested in some aspects of our business. We like where our price gaps are today. We like the level of overall associate compensation and benefits.

We're going to have to continue to invest in those over time. But it's such that the margin profile or the opportunity in our business is such that, we have the ability to continue to invest in those areas and see our margins grow over time. And so, those aren't really like concerns for me when I look at the opportunity in front of us. What's challenging I think for any management team as to when you look at margins growing like that, how much of that should you be reinvesting in the business for margin returns in the future? And there's no perfect formula around that. But we think that not only do we have an opportunity to grow margins, but we have a great opportunity for a company our size to just grow in general.

And so, we want to continue to fuel that. And so, I think we have the opportunity to continue to invest in our associates, to have appropriate price gaps, invest in our future and see margins go up.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Yeah. Maybe, can we dig a little deeper on the rollbacks that you talk about on the price gap? So we're up to 7,000, I guess, mostly vendor funded, but you talked about how you're funding some of those yourself. I think the Modelo one, $1 a beer sounds pretty good to me. But help us explain the rollback strategy. The 7,000 going to 10,000. How do you use that to drive the business?

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

A

Generally speaking, rollbacks are vendor funded, as compared to normal quarters, there are slightly more this time that have been Walmart funded. And this can be a tactical pricing strategy for us where we have the opportunity to go in and see how customers respond to these rollbacks before we make a permanent price change. And so, we could come in later if we saw really good response terms of units sold and that were the right economic outcome for us to then make that permanent. Overall, right now, rollbacks are roughly 7,000. They're up 50% in the grocery category year-over-year. And we think that we're appropriately invested in this area of our business to help drive unit volume.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

So, we should expect the 7,000 to sort of stay there or I mean, that's an unusually high number, is that...

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

A

I think we'll have to wait and see how customers respond to this. Well, if we like the outcome, it may stay there. If we're not seeing the type of response, we can certainly change that.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Got it. I'd like to – there's no way to get margin than the sort of earn-in and everyday low cost, I guess, sustainably. So I'd love to dig a little deeper back on automation and efficiency. Could you sort of update us on how many DCs have been converted, where we are in that multi-year process to get that, I think, you talked about a 20% increase in unit velocity.

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

A

Yeah. We've got 15 of our 42 DCs that have been converted at some level to automation at this point in time. Roughly 1,700 of our stores in the US are being served by this automation. So really like the progress here. But just because like, I'd say 15 of the 42 year DCs, that doesn't mean that's 100% automation. So that probably overstates the amount of volume that is fully automated at this point in time.

We're really pleased with the progress that we're seeing there, excited to have our full network converted to automation at some point in time. We're also really pleased with what we're doing within our stores this big is something we've talked about before, but digital shelf labels is something that really saves a lot of time among associates where they don't have to manually change those. The prices on items also gives us better accuracy of what we sell.

Within the stores themselves, we also are automating many of these supercenters at the end. We call this historically a market fulfillment center, an MFC. That's probably slower in terms of its progression than some of what we're doing in our DCs and FCs, but really excited about what that can mean for the future.

Maybe I'll point out just real quickly Greg like for the audience members that maybe don't know this, when we automate one of these DCs, we see roughly twice the throughput they're going through with half the head count. And so, the math on this is very, very compelling.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

And if I remember correctly, the unit velocity was going to be 20%. Again, it takes years to roll this out, but 20%, that could still be a point or more of margin benefit, right.

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

That's true. And largely that's not manifested in our results today, because we're still very early on in this in terms of the overall volume that's flowing through automation. So to me, this is an opportunity that investors will still – have still yet to see.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

Maybe to double click on that a little bit, 3P growth and getting Walmart fulfilment, how is getting the automation rate, help getting 3P fulfillment, just unlock the opportunity to do that for folks. Where is that? When does that happen?

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

Great question. But when you think about – we're increasing the capacity, roughly 2x in some of these fulfillment centers, it gives us the opportunity to use that space for our third-party providers. And I think a very exciting part of what's changed in our business over the recent quarters is the number of 3P sellers that are availing themselves of Walmart fulfillment services, it's roughly a third to half order of magnitude here of those sellers and what a great and compelling value proposition for that third-party seller. And we can provide this in a way that many, many others can't. So, to me, it's a no brainer for your third-party seller to be able to do this and to continue to improve how we're fulfilling – I hope you're still there, Greg.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

I'm still here.

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

Okay, all right. How we're fulfilling these orders for our customers. I think, it's just another growth opportunity for us in the future.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

That's great to hear. The last thing, I want to make sure I tie it back to, is eCommerce. Just in the first quarter, you had a variable margin of 12.5%, extremely strong. I think my math, it implies a $400 million year-over-year profit improvement. Can you keep up that kind of year-over-year improvement through the rest of this year and into next year?

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

Yeah. Let me talk about that. That is something that I look at each quarter, what are the incremental margins on our business. Overall, brick-and-mortar, and eCommerce. And talked about it in this most recent quarter, because that's the best that I've seen since I've been here. So, a 13% improvement or incremental margin on our eCommerce business, not every quarter is going to be that way. That's not what we're planning for the back half of the year. It's a lower number than that. But it really speaks to the incremental improvement that we've made in the unit economics of delivering something to one of our customers.

A big part of that improvement is coming through lower delivery cost. It's not just lower delivery – lower delivery cost can come through the form of more density. So, delivery, multiple packages when you go to a cul-de-sac versus one. It also comes through revenue opportunities around delivery. An example of that would be, I think, I mentioned earlier, the express delivery, less than three hours. We're seeing more customers that are availing themselves of that. That has a way of beauty in the cost related to this overall.

So, I mentioned last week at our shareholders' meeting that profitability in eCommerce in the US is probably within the next couple of years. We're getting close. It's month-to-month sometimes. We're not done yet, but excited about that opportunity. And we saw the results of the most recent quarter with these incremental margins. We're just driving really strong improvements year-over-year.

And so, we've said all along that this is not something that we feel like we have to strain our eyes to see out to the distant future. We have clear insight into how to get there and the steps that we need to take. And you're seeing that in our results.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

And just to be clear, I want to make sure the breakeven or profitability in eCommerce the next couple of years, that includes advertising in the holistic 3P...

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

Yes. It includes the advertising fulfillment services, data monetization. That's correct. That said, like, we actually want to get to eCommerce profitability without the subsidization of those other areas.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

Got it.

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

But that's further out. That's further out.

Gregory Scott Melich
Analyst, Evercore Group LLC
Q

And that's further out. That might be four, five years. Not a couple. Fair.

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

Potentially, yeah.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Right. So, I think we've got five minutes left. So, I want to get – put on the strategic hat, but also the CFO hat. It's great to see Walmart driving top line and margin expansion, but CapEx has also crept up to get there over the last few years. Do we expect return on investment to make a turn now going forward or are we going to see a lot more capital having to be thrown in to keep up the momentum?

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

A

Yeah. I feel like as a CFO with investors, I need to be able to continue to show progress and return on investment going – increase each year to have the license to spend this capital. I don't want to ask investors to wait five years for a return on invested capital to go up. And so, internally, the way that we're managing this is that we are spending more CapEx.

We think that's the right thing to drive the gross margin expansion of our business. But we're doing so while seeing return on investment go up each year. I think, last year, it went up a couple of hundred basis points. Maybe it's not that large this year, but we should see ROI go up each year into the future. We'd like to get back to some of the ROI levels that you've seen historically back when we were doing massive expansion of stores. We think we have that kind of opportunity.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Great. And you mentioned earlier Flipkart and potential IPO, I think, the last funding rounds, put it at $45 billion or $50 billion. What would be the main goals of the IPO? Like why are we doing it? And then, what should we be watching as outsiders to get a better sense of the timing or the things that have to happen before these businesses could be independent.

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

A

Yeah. I think the goals are monetization opportunity for some of those stocks. And then, I believe their value of those is not properly reflected in our overall valuation today. I've spent the last two days at PhonePe board meetings. I could not be more excited about that business. In fact, in my 25-ish year career, there have been few companies that I have found to be so strong, so compelling in terms of what they're doing and their capabilities. I can say some of the same things about Flipkart, so that's the monetization opportunity that we think gets the value more properly reflected.

In terms of the key things that we need to see, we want to continue to move on this path to profitability with each of these entities. We'll share more there in the back half of this year about that specifically. So the progress that these companies are making. But I think for investors, you want to be able to know, when you do an IPO, where the economics going and that you're getting to a point of profitability. And so, I think, timing of that will really influence the timing of the IPO.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

And like to add a little bit, how would you balance current M&A opportunities versus dividends versus buybacks as you think about the cash coming in?

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

A

Yeah. Balance is important to me. I want to be able to have dry powder to do appropriate acquisitions with M&A. I also want to continue to buyback stock. We have a lot of conviction and where our stock price can go. And so, we want to make sure that we have ample dry powder for that. And as you know, we've recently increased our dividend 9% this last year, which is the largest dividend increase we've had in 10 or 12 years.

We're at a 37.5% payout ratio right now. Perhaps over time, we could see that grow even more. When you look at the margin expansion opportunity that we have, it translates into a tremendous amount generation to free cash flow. So, I think, it gives us opportunities to all of those. We're not going to overly skew towards one.

Gregory Scott Melich
Analyst, Evercore Group LLC

Well, that's great. I think we've taken up all of our time. So John David, Steph, Kary, it's a pleasure having you with us. Really appreciate it. We got through a lot and look forward to seeing you again soon.

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

Thank you, Greg. It's always a pleasure.