25-Jun-2024

Walmart, Inc. (WMT)

Bank of America London Investor Conference

CORPORATE PARTICIPANTS

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

Steph Wissink
Senior Vice President, Investor Relations, Walmart, Inc.

Kary Brunner
Senior Director, Investor Relations, Walmart, Inc.

OTHER PARTICIPANTS

Robert F. Ohmes
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Robert F. Ohmes
Analyst, BofA Securities, Inc.

I'm Robby Ohmes from BofA Global Research. We are just really pleased to have Walmart here with us today, including John David Rainey, the CFO of Walmart; as well as Steph Wissink from Investor Relations; and also Kary Brunner from Investor Relations. Walmart, as I think everybody here knows, has executed incredibly well over the last, call it, four to five years, transforming itself into an omni-channel leader on a global basis.

QUESTION AND ANSWER SECTION

Robert F. Ohmes Q
Analyst, BofA Securities, Inc.

So I'm going to maybe start – going to John David and saying, everybody always wants to know how are consumers feeling generally out there, any changes in behavior, and how should we think about things like trade-down and all those things that everybody cares about?

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

Sure. Happy to address that, Robby. And thanks all of you for joining us, and thanks for hosing us, Robby. It's a pleasure to have the opportunity to speak about Walmart today. And no surprise consumer – or health of the consumer is the first question. We keep wanting to be able to say something different, but it's just been very consistent. And we've talked about this for several quarters now. The consumer is being choiceful. There we see a shift from general merchandise to food as wallets have become more stretched. The price levels obviously had some impact to that.

But just focusing on year-over-year price changes, general merchandise is still deflationary, a couple of percentage points deflationary. Consumables are roughly flat and food is up modestly. In the last quarter, the overall basket that we sold was up 40 basis points. I think it's been that way for the last two quarters.

If you look at our revenue growth, though, it's almost entirely driven by units versus price. And we've really been – we knew that going into the year, this was going to be a big focus for us. And we're seeing customers respond. We continue to gain share, part of that is because of the value that we provide, but I think a big part of it that is maybe not appreciated quite as much has been historically is convenience for us. We really upped our game in terms of what we're doing in our e-commerce offering, in our ability to fulfill that as customers demand. So we're pleased with that.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And maybe following on that, how does this idea of Walmart being as big in convenience now as well as price, how does that change the merchandising strategy at Walmart?

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

A

Yeah. Well, just as context here, through the pandemic, we really, I think, gained a foothold in e-commerce with online order and then picking it up curbside. In the last couple of months, we've seen our delivery volume surpass pickup, which we've stated like I don't think this is a trend that's going to revert. And we've been really pleased with how responsive customers have been to this offering. But as it relates to the merchandising offering, with our e-commerce offering, we have a marketplace where third-party sellers can come.

We've got 420 million SKUs on our marketplace today. A lot of that is in apparel, a lot of it is in home. And when you look at a category like general merchandise overall, which I think all retailers have struggled with this over the last year, we have categories in our marketplace, pets and beauty would be examples that are growing 30%. Sporting goods, kids apparel, these are growing north of 20%. So this tells us that customers are coming to this offering in that our offering is resonating with them in a way that historically they've not thought of us for.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

You talked about the consumer a little bit. You've also talked about how well you're doing with the higher income consumer, the $100,000-plus. Is that convenience driving that change? Or is it – what's supporting that? And can that keep going?

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

A

Yeah. I do believe that convenience is a big aspect of that. We hear that from our customers, we see it in their behavior. Certainly, customers are looking for value during higher prices, or with higher prices, and some of the share gain has come from that, but it's persisted. And what we hear from our customers is they're really valuing us for convenience.

So if you think about, if you're making a dinner tonight, you're trying to assemble that recipe during the afternoon and you need spaghetti sauce or certain items, fresh tomatoes, we can deliver that to you within a 15-minute window within the timeframe that you want in a couple of hours. Not a lot of people can do that, because of our footprint of 4,700 stores in the United States that are within 10 miles of 90% of America, we can provide that convenience to our customers.

And so we're seeing them come to us for that. And what we're trying to get them to do is to cross that virtual aisle, where they're not just buying food, but also buying general merchandise. And that speaks to some of the merchandising strategy with related to our marketplace strategy that I just spoke to.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And Walmart historically does well in things like recessions. With all these changes in marketplace and convenience, how do you think Walmart would perform if we had another recession?

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

A

Yeah. Well, I certainly like our chances more than others. I think we're a company that stands to benefit when times are tougher, but we also stand to benefit when we get to a more expansionary type of economy. And so the offer that we provide today, I think, is a pretty durable one. If you're looking for value, you can come to Walmart. You're going to have everyday low prices. If you're looking for convenience and convenience matters irrespective of what your income level is or irrespective of what economic growth is, we're going to provide that as well.

And so I think that we've got a very durable model. And I'm eager to see how this plays out over the next several years, so investors can see that.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And Walmart's been doing more and it appears to be doing a lot more on private label, bettergoods tastes really good.

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

A

Thank you.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Can you maybe talk about bettergoods, but maybe just review with us the whole private label strategy, or brands around it?

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

A

Yeah. For everyone else's benefit, we provide at Walmart - about 20% of what we sell is private label, owned brand. Within our Sam's Club format, it's a little north of 30%. We like where those percentages are. We think it's important to offer a combination of national brands and private brands. And overall, those two percentages that I just shared, those have increased a couple hundred basis points over the last couple of years as consumers have been looking for value. But what's notable is the quality differences in this offering today versus years past.

The most recent example of that is with our bettergoods offering; bettergoods, for those who are not familiar, are these more trendy health-conscious offerings that we're providing. 70% of it is priced less than $5.

In this category before there are others that have done this really well. And the feedback that we've received – and I've tasted the products – is that customers really, really like this. And so we're really looking forward to the full expansion of this one, which we'll roll out in the September time-frame.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And maybe remind us the profitability, how you think about the profitability of your private brands...

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

Private brands? Yeah.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

...and the interaction of that between your work with the national CPG brand?

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

Yeah. Private brand, on a dollar or like a penny profit basis is about the same as a national brand. And so a bag of potato chips, we're going to bring home the same amount of cents that we would with a national brand, but because it's a lower cost for us and it sells at a lower price, it has a higher margin overall.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And then, I know everybody wants to hear about the competitive environment. Maybe start on the grocery side of your business and promotions, price investments, maybe some commentary on things you've said about lowering price on a group of items and...

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

Overall, the competitive environment feels pretty rational to me right now. All retailers are recognizing that customers are stretched, and they need to provide value. There's, I think, less price pressure than maybe there was at this point last year. And competition like it's not just price though, it's also convenience. And that's where our omni model really resonates. But overall, I think competition seems – or pricing seems -- pretty rational right now. We like where our price gaps are. But EDLP is who we are. And we always want to be a price leader in the market.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And how about in the general merchandise side of the business, you talked about you're gaining unit volume share. Do you see any sort of competitive responses in general merchandise?

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

Yeah. Well, as a percentage of the basket that consumers are buying, we're certainly seeing a shift from general merchandise to food. General merchandise carries a higher gross profit than food. And so that puts some pressure on the margin for us. But as I noted, we're really leaning into our marketplace. And that's been a big advantage for us.

As we look forward over the next several years, this is an opportunity for us. We do really well in food. It's the majority of our business. But we think that we have a right to certainly play more strongly than what we do today in general merchandise. We can do that by providing an assortment that doesn't have to be first-party, it can be third-party. And there are many examples of this where brands are now selling on our marketplace, where we wouldn't normally carry them in our store.

And that benefits the overall model for us, because the more marketplace sellers that we have – and we've got several hundred million customers that are at Walmart each week, they're selling to a lot of eyeballs where we're gaining share, right, it becomes self-reinforcing. The more sellers that we have, the more customers that are coming in there to buy the things that they sell and vice versa. And so this is – a big part of our focus over the next several years is to more heavily penetrate the general merchandise area.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Maybe related to that, I've gotten a few questions on this. I think Walmart said something. I forget who said it. It might have been you. Something about selling a lot of tires, I think you talked about on the first quarter. Can you kind of give more detail on exactly what you were talking about there, because I think that was 3P marketplace, right?

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

A

Yeah, yeah. I may have the number wrong and Kary or Steph, you can correct me. But I believe it was like we sell 40,000 tires on our marketplace, but the benefit of the omni model is that you can then take that to one of our 4,700 stores in the US. Well, I guess, we don't have tire services in all of our stores, but in the stores that we have them and have them serviced, there are very few others that can do that. And I think it speaks to this power of this omni model. Customers are clearly showing their preference for those companies that have a strong brick-and-mortar footprint but can also fulfill and order online. And that shows how you leverage one another to make them both stronger.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And does the customer buy it and it comes to their house, and they bring it to the store, or are they going to the store and the tire is at the store?

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

A

I think the latter, that you can buy it online and pick it up in the store.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's incredible. And then, I keep getting questions about rollbacks in – vendor funding of rollbacks, and maybe you can enlighten us on how we should be thinking about that.

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

A

Yeah. Generally speaking, rollbacks for us are primarily vendor funded. We'll fund some of those ourselves, but our rollback count is up 45% year-over-year right now. So we're certainly trying to provide that value to our customers. And that's a good way for us to test elasticities of prices, see how customers respond before maybe we make something more permanent. It's an ongoing part of our strategy. That count of rollbacks ebbs and flows from one quarter to the next. I think we're at a pretty high point right now, with it up 45% year-over-year. But that's a big part of our strategy and being able to provide that everyday low prices to our customer.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And you already said that you don't – no competitive response to...

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

A

No, look, we operate in a very competitive environment. So we've seen others respond appropriately. And so one of the things that we look for is – or look at is our price gaps. And we like where our price gaps are. But those are constantly changing. And it may – it's not necessarily across the board. There are categories of things that we need to be more responsive to. And, again, we might go in at a lower price point, test the elasticity, see how we're driving volume. But, again, I'd point back to the composition of our revenue growth is entirely driven by units right now. So we really like what we're seeing.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And then, your remodeling program, can you remind us what you guys are doing there, and can you give us some math on the kind of lifts you got from the remodels?

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

A

Sure. Last year we remodeled about 700 of our stores. The plan this year is to do a similar number down a little bit; 650, to be precise. And these remodels are very different than what we've done historically. There's a different look and feel. There's an ambience to them with music playing and the displays are different, the way point finding. And for one that has walked into one, they'll tell you, this is a very different Walmart than what I'm used to.

And what we like is the uplift in sales that we've seen relative to the historical remodels that we've done. And so the NPV on this pans out quite well. But what's maybe a little bit surprising and not intuitive about this is what we see in the trade area around there in terms of the uplift in e-commerce sales as well. You would expect the in-store benefit perhaps. But we also see that there's an uplift in e-commerce sales in those areas where we've done a remodel. Again, this points back to this omni retail value proposition for companies like Walmart.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And then, can you remind us what the margin benefit is from a remodel as well? So the – you get the lift in e-commerce and maybe this would be a good place to walk us through, another question we get all the time is e-commerce, is it – is a lower margin business versus in-store in that shift and any pressure from that?

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

A

Yeah. Well, specific to the remodels, we see kind of a low- to mid-single-digit uplift. But we're also pretty early on in this. You would expect a higher increase in comp sales right after that that tends to level out. But again, this has been better than what we've seen historically.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And just the path to profitability, there was a – at the Annual Meeting in the analyst session, there was some confusion about what was said about the path to – I guess, 1P e-commerce profitability – I mean, Steph, feel free to help me out here. But do you remember what I thought about?

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

A

Yeah.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

So there was the – and the question I got is that when you guys are moving towards profitability of 1P e-commerce, what is included in that? Does that include digital advertising or not? Or maybe you can sort of walk us through...

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

A

Well, I'm going to choose to answer the question a little bit more broadly. And we were asked like, what is the path to profitability in the US business? First of all, I would say that Sam's e-commerce is profitable today. And so I'm just focusing on the US business. And increasingly, the lines between offline and online are becoming blurred. And so this is going to only get more difficult to separate those two, like using your tire example as one to – that I think points to that.

But we were asked about that, and I said I think it's reasonable within the next couple of years we could potentially be profitable in the US. That includes not just the pure e-commerce piece, but also the subsidization of that with advertising, data monetization, fulfillment services, membership, those areas.

1P is always going to be a little bit more challenging than 3P. And so that probably is not on that same timeline. And maybe 1P is never profitable, I don't know. But when you include the suite of services that we describe as e-commerce, that includes advertising, some of these higher margin parts of the business, we really like the progress that we're making. Our goal is not just to stop there, though.

At some point, we'd like for e-commerce by itself, 3P and 1P combined, to be profitable without the subsidization of advertising and data monetization. But all of these things work together. We talk a lot about some of the supply chain automation that we've done. If you take the automation that we've done in one of our fulfillment centers, we have roughly twice the capacity and twice the throughput that we had prior to that automation to that vertical storage that we have there. That allows us to use that excess space for our third-party sellers to fulfill that. This is what we call Walmart Fulfillment Services. Roughly, 40% of our third-party sellers take advantage of WFS for us. That turned contribution margin positive in the last quarter.

So when we talk about the path to profitability here, recognize that many of these parts of our business are losing money today. When you just think about the overall global footprint, we've got Flipkart and PhonePe, they're all on their path to profitability. We're seeing those e-commerce losses improve year-after-year-after-year, which gives us a lot of confidence in what the overall financial profile of this business looks like a few years from now.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And maybe a follow-up on that. Can we get you to focus in just on the digital advertising piece? Can you remind us what you've said about how big it is now and how we should think about the potential there maybe versus an Amazon, or what the differences might be between what maybe Amazon's already achieved there and what Walmart might be observing?

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

A

So we said last year that our global advertising business was $3.5 billion – $3.4 billion. That's growing. Like in the most recent quarter, it grew around 20%. And that growth has been pretty persistent. I think we have a big opportunity here. And what's different about us versus a lot of other digital advertisers is the ability to attribute an ad that surfaced to you, Robby, in both a digital and a physical experience.

And so imagine that we show an ad for you for a certain item. If you're digital-only, we can – you've got the lineage to see, like, okay, if you bought that online. But what they don't know is if you waited a week to go buy that in a store somewhere, we can do that at Walmart. We can surface an ad to you and then a week goes by, you decide to buy that item in a store, we know that there was attribution related to that ad. That's good for our advertisers and helps us better understand our customers and members much better, so that we can provide the types of offerings and ads to them that are relevant and affect their behavior.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And I think the VIZIO opportunity might be related to digital advertising. I still don't totally understand the VIZIO opportunity. So I don't know what you guys can say about that.

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

A

Well, we think this is great for our customers. The margins generally are pretty low on TVs today, the hardware. A lot of the money that's being made there is in the software part of that. And we want to take advantage of that. We're a large seller of TVs in the United States, in the world. And what we can do is better serve our customers by serving them through this additional channel. So it's not just a browser experience, or an app experience, or an in-store experience, it's also while they're watching TV – and again, things that are relevant to them, that are based upon their preferences and predilections, so that we can surface something to them that may affect their behavior that they want.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

Got you. And you mentioned some of the automation improvements going on at the DCs. Can you remind us where you are to get everything done? What percentage – and then what – how should we think about – is there like a tipping point where you – as you get to much larger percentages, if it's something grows faster, whether it's digital advertising, or marketplace, or just more market share gain at a more rapid pace, or what's the unlocks from all this?

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

Yeah. Well, so with supply chain automation, there are many aspects to that. What we're doing in the stores, what we're doing in our fulfillment centers, and what we're doing in our distribution centers. We have 42 distribution centers. 14 or 15 of those are in some form of automation, not fully, completely automated. And the path to completion there is pretty linear over the next few years.

So there's not necessarily like a step change where, all of a sudden, we've got everything fully automated. Similar with the fulfillment centers, we're about a-third of our way through that as well. But the improvements that we see in the efficiency of these DCs and FCs is quite notable both in terms of the throughput, our ability to better manage inventory, but something that I think is important I don't want to miss is also the quality of the work that our associates get to do.

So you take a DC today, one of our associates is walking up to 10 miles a day, lifting thousands of pounds, moving pallets and things like that, we're able to take that same associate and train them as a technician to run an automated forklift. And the feedback that we get from many of our associates is that we add as much as 10 years to their career because of the less manual-intensive nature of this work. And so it's something that we're very focused on, is doing this automation in a very associate-friendly way that becomes a complement to what they're doing, and actually, enhances their overall job experience.

But the automation path is one where we think that when we get to completion of this, we'll see improvements in the cost of our fulfillment by about 20%. So very meaningful. And some of the improvements that we've seen already and – like our delivery costs is related to the automation that we've already put in place.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And the automation, can you walk us through the kind of the 3P marketplace fulfillment of it? So just so to help me and anybody else understand, so you take a DC, you automate it, and that also opens up the ability to move...

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

Exactly.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

...inventory for the 3P partners. How big a business can Walmart Fulfillment Services be over time?

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

A

Yeah. So if you think about one of these fulfillment centers, what we have effectively done is we've got vertical storage, and we've got automated storage and retrieval of that inventory where robots are going out and putting an item in a basket or retrieving it for a customer. With that vertical storage, we're able to better utilize the space for third-party sellers.

And so if you're a third-party seller, you can house your merchandise in one of our fulfillment centers and we can fulfill that customer order for you. 40% of our third-party sellers are availing themselves of Walmart Fulfillment Services today. So this is something we monetize as well.

I think if you're a third-party seller, it's almost like you're not using us correctly, if you're not availing yourselves of this. And it's very important, though, that we are really good at the delivery aspect of this.

One of the things that we measure ourselves on internally is what we call a perfect order. So when a customer comes to our website whether it's 3P or 1P, do we have the item that they want, are we able to deliver that to them without substituting an item and deliver in the timeframe that they want, there are other things that go into that. But our perfect order score increased 900 basis points year-over-year.

So the better that we get at fulfilling these, the more that these third-party sellers are going to use us as well, because it's providing better customer and member satisfaction.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And this is a very broad-based question. But Walmart and AI, can you tell us everything that we want to know about what the opportunity is for Walmart and AI? And what you're doing already?

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

A

Well, AI is certainly the flavor of the month. So I anticipate a question like that. I would say, we're using it in three areas that are probably most notable. The first is on how we serve our customers; meaning that when you go search at Sams.com [Samsclub.com] or Walmart.com, how we're using AI to better curate the results of that search. An example would be here in a couple of weeks in the United States we have the July 4th holiday. A lot of people throw parties or barbecues for July 4th. Instead of going and looking for hot dogs individually and charcoal or whatever it is, you can simply say, I want to throw a July 4th party, give the items that I need, and we can bring all of those things into that experience. That's one example of how we're using AI to better serve our customers.

Second example would be how we're using this in our supply chain automation. So I described the environment in one of our FCs where you've got this vertical storage of inventory with robots that are going and retrieving this. Every time one of those robots takes a less circuitous or more circuitous route or runs into another robot when it goes back, it's recalibrating and learning through AI to take the most optimal route to minimize the amount of time it takes to retrieve that inventory.

The third use case is in how we're using it to reduce overhead costs and reduce inefficiencies in our business. And so an example would be perhaps Walmart uses claims services. So when we have a worker's comp claims or there's an injury in one of our stores or clubs, there's a lot of back and forth that takes place between a claims agent and that associate or that customer. And the way that takes place is you may call me up to 10 to 20 times, and I'm writing down text – the interaction of that call. It's what we call unstructured data. But what AI can do is bring structure to that data to help resolve that claim much more quickly for that associate or that customer that's been impacted.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

That's really helpful. Sam's Club has been doing really well. Can you talk about what – maybe what is – if we go back three or four years, what's changed at Sam's Club that set them up to be doing so well now you can say?

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

A

Yeah. Well, if we're going back three or four years, I mean, I have to speak to the fact that for much of that time, quarter-after-quarter, I think we had 11 straight quarters of double-digit comps at Sam's. You're seeing membership grow, that format is resonating with customers. And what's different to me about that is the level of digital interaction in that experience.

And we see that resonates with the highest growth cohort at Sam's are millennials and Gen Zs. And I think that the digital experience is one that really resonates with them. So as I talk about a digital experience, the best example, I think, is at Sam's Club, the way to shop is with Scan & Go with your phone. And so you can scan each item as you go through that. Roughly, a third of our transactions are done with Scan & Go. I would argue that's got to be one of the highest digital penetrations in in-person experience that exists out there.

What's so telling about that, though, is that the NPS score on Scan & Go is 90, which – I don't know a lot of NPS scores, which are higher than that. So we really love what we're seeing there. And we've automated the checkout even further more recently where you walk underneath the device, when you go out of the store, and it can reconcile what you've done in your phone, with Scan & Go with what cameras have taken a picture at in your cart to make sure that you have the merchandise in there that you said you did.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And can you remind us that the Sam's Club store growth outlook and is that changing?

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

A

Yeah. What we've shared, I believe, is that we intend to launch 35 more stores over the next five years. And I think the next five years will look something like that. But we're always going to be responsive to the environment. We think that there is opportunity for us right now. This format is resonating with customers. We're seeing great growth there. Membership is growing, and we want to continue to add where we think this is ROI-positive.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

And I'm going to shift to international. Maybe I'll just let you – maybe rank the opportunities in international and give us a little color on what's going on in the major opportunities?

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

Well, there're so many good opportunities there. Recently, I've been down to Chile to see that business there. It's a great business for us Walmex, Canada, I can go across the globe. But maybe a couple that stand out are India and China, two of the faster growing parts of our business. China is roughly 50-50 digital and brick-and-mortar today. I think it's a glimpse into the future of what the rest of retail could be around the globe. Really excited about that business.

Notably, what is the standout in that business is our Sam's Club format. That really resonates with the Chinese consumer there. Two of our best-performing stores in the world are in China there. And so really pleased about that.

India is really different than the other markets that we operate in insofar as we don't have any such physical stores. It's entirely an online business. And the business is composed of two separate companies. Flipkart which is a marketplace and PhonePe which is a payment company. And maybe, for the sake of time, I'll just focus on PhonePe. They're doing roughly a 1.5 trillion of total payment volume. Total payment volume is the equivalent metric of – like GMV in the payments business. That has got to be up there as large as any payment company in the world, certainly outside of China, and how it's resonating with customers there, it's just amazing.

So to be the largest payment provider in the largest market of the world, that's exactly where you want to be, but what they're doing in addition to just providing payments for customers is they're providing new ways to serve merchants, new ways to serve customers, whether it's providing insurance to a customer, or being able to take the inventory of a medium-sized merchant that doesn't have an e-commerce site and catalog that, and provide a shopping experience through the PhonePe app for that merchant online.

Now they appeal to not just someone that's walking into the store, but can shop with them online. And so they're doing that across the board. And many of these things are just going up and to the right in terms of growth. So really, really pleased with that performance there.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

It's great. You mentioned PhonePe. I think this is a question you might have gotten also at the Analyst Day a few weeks ago. Just the financial services as an opportunity for Walmart, maybe an update on how you're thinking about that?

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

Yeah. We provide a lot of financial services to our customers around the world today. A lot of those are done in an in-store experience, though. So we think that there's an opportunity to serve them digitally. Whether you want to send money to a loved one across the world, or cash a paycheck, or have your paycheck deposited into an account with One, as an example, in the US.

And so there's an ability to serve this segment that is somewhat underserved financially, but also to digitize a lot of the services that we do today in an in-person fashion. Depending upon what region of the world you're looking at, this can be a fragmented market, it can be crowded. We're going into this knowing where we have a right to play and where we don't. And so we're being very mindful of that strategy.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And the other one we get the questions on is Walmart Healthcare [Walmart Health]. So you closed a bunch of those locations, but you have other opportunities. Maybe help us think how you're reframing the healthcare opportunity for Walmart?

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

Yeah. Well, we certainly had aspirations of being able to do with healthcare what we did to retail to improve the quality of services and do it at a lower price to help our customers and members save money and live better. We started an organic effort there where we had 42 clinics. We started small to learn our way into this, and we looked at what are accelerants to that strategy, even inorganic-type opportunities. And the more that we came to understand this and how – what the profit profile looks like in this space, we saw the challenges. And we ultimately in the last quarter decided that we were going to pull out of the clinic space.

And so as it relates to health and wellness, what we want to do is continue to serve our customers in the way that we can, but have it probably more closely related to retail, healthy food choices, things like that that relate to health and wellness versus a pure care strategy.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

We have to talk about Walmart+. So can you for people over here who don't have access to get that membership, maybe remind everybody what Walmart+ is, what you get for the membership.

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

Yeah. So our Walmart+ offering is a membership offering where you can subscribe for a modest amount of money each month or each year, and we'll provide several services to you which include free delivery that's probably one of the more compelling offerings there.

We have partnership with Paramount, and there are other things as well. But we've been pleased with what we've seen there. And just pause for a second, at this point in time right now, roughly 20% of our operating income comes through our membership and advertising. And so this is a high margin part of our business. And it's resonating with customers.

And I'll give you an example just on how it's resonating. This is a little bit different than Walmart+, but it shows the value of what we're providing around delivery. So of our scheduled delivery, roughly a-third of that is what we call Express Delivery, where someone will pay for it because they want to have that item within three hours. This has been a big part of the improvement that we've seen in the unit economics around our e-commerce business.

But Walmart+ allows someone to have that free delivery, to have things shipped they want to buy online. And it creates a level of engagement with customers where they're shopping with us frequently and we have the ability to retain them. I think to continue to grow this, we just need to continue to improve how we provide those offerings, the quality of how we're providing those offerings, improving our game with delivery. We talked about our perfect score improvement. That's a good example of how we need to get better here.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And then, one other thing I think that would be helpful as the CFO. Can you sort of just restate what Walmart's algorithm is? Is it 4x4 whatever – what is the algorithm...

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

Yeah. Yeah. So at our Investor Day last year, we talked about our long-range plan. And our long-range plan, think of it as roughly the next five years. And we said that we think, on average, we can grow revenue about 4%, some years maybe less than that, some years may be more than that. But as we see the outlook and where our growth opportunities are, we think that, on average, we can grow about 4%. And we said with operating income, given the opportunities we have in our business, we can grow that faster than we can the top line. The way that we depicted that on the slide was this shaded range between 4% and 8% to give some framework to thinking about how that can grow.

If you look at our performance last year, combined with what our guidance is this year, it would suggest that we've, on a two-year basis, grown, on average, the top line about 5% and the bottom line more than 8%. So very pleased to be so early on into this new period of time for us where we're already seeing these kind of opportunities.

The last quarter was very telling, Robby. We saw, again, twice the rate of operating growth that we saw on the top line. And I think well in excess of what many expected. But I think it's a glimpse into the future of how we can perform. Not every quarter is going to be as good as the last quarter. And certainly, the quarter that we're in, the second quarter, we've said is our most challenging quarter from a comp perspective for the year. So it won't be like the first quarter. But when everything is working well and we're executing and doing the things that we can and controlling what we can control, you can see that kind of performance. And so I'm very optimistic about the future and the plan that we have.

Robert F. Ohmes
Analyst, BofA Securities, Inc.
Q

And just remind us, with the CapEx outlook, with all the things you're investing in, should we expect CapEx dollars to keep going up pretty significantly or...

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

Yeah. In absolute terms, we're probably at a level that is – I don't see it growing much from here. We're in a bit of bow wave of investment right now. And so a lot of the supply chain automation and the technology that's involved with that is more expensive.

Importantly, what we've said, though, is that we expect return on investment to go up each year while we have this bow wave of investment.

It's not going to persist forever. We'll get past some of this. So the lion's share of what we need to do in the next couple of years. But the way that we think about CapEx or capital allocation more broadly is every dollar of capital has to compete for the highest return. And many of these returns for us have IRRs in excess of 20%. So this is a good investment.

Our ROI last year went up 200 basis points. So again, it may not do that every year, but we want to hold ourselves to the standard that we've got increasing ROI over time, while operating profits are growing faster than revenue, and the revenue on the top line for a company our size should be growing 4% on an almost $700 billion base, not shabby.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

I'm going to pause and just see if we have – we don't have much time left, but I wanted to see if there are any burning questions in the chat... Can you just touch on Walmex? Obviously, the rise in wages is helping your average consumer there, but you've got a government that might be very interventionist. Can you talk about a little bit how you see that evolving?

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

A

Yeah. Well, the rise in wages also put pressure on our bottom line. That's probably the single biggest bit of inflationary pressure that we saw in our Walmex business this year. Our CEO of International just actually met with the President-elect there. The message that was communicated is that she wants to provide a very business-friendly environment where companies – or particularly international companies will continue to invest in Mexico. Mexico is a very important part of our overall footprint. The business has done really well there.

It's a multi-format business. So if you think about at the lowest level, you've got the bodegas. That is low-price points, lower number of SKUs, more bulk goods. But it's where our value proposition, I think, really shines. You go down there and you understand that people that can't even afford their own transportation are going to a store like that, and we're providing some to them that they wouldn't have if not for the bodega format that we have there. And so Walmex will always be a very important part of our business. It's something we're very proud of as well.

Unknown Audience Member
Off-Camera

Q

To what extent are you able to roll out the learnings from North America?

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

A

Good question. So their CEO and his management team came to visit us just about six weeks ago, talking about how we leverage our supply chain automation. So we're doing very similar automation in Mexico around being able to serve e-commerce in the way that we do in the US. So that is one of the benefits of the strategy that we have with rotating management, sharing best practices, and so that we can leverage the expertise we have in one area of the world, in other areas of the world. We do the same thing with Flipkart as an example in marketplace. We learn from them. They learn from us.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Q

Any last thoughts to share?

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

A

Sure. I'd love to close it out. Look, it's been far from maybe a normal retail environment over the last couple of years. I think we performed well during that period of time. We laid out a plan and shared with the investor community about how our business is changing, how we've really improved in e-commerce, and how that's resonating with customers. That allows us to offer a lot of other things besides just core retail as we think about historically, things like advertising membership. All of these things are faster growing parts of our business and also have higher margin aspects to them.

So as we look forward over the next few years, we're going to continue to be true to who we've been historically. We're going to invest in our associates. We're going to manage price gaps. We're going to invest in technology. But I think we think that we can do all of these things while seeing our profits grow faster than sales, which is going to make operating margins go up.

Robert F. Ohmes
Analyst, BofA Securities, Inc.

Terrific. Thank you so much, John David. It's been great.

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

Thank you, Robby. Appreciate the opportunity.