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Walmart, Inc. (WMT)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Walmart's Fiscal 2022 Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

At this time, I'll now turn the conference over to Dan Binder with Investor Relations. Dan, you may begin.

Daniel Thomas Binder

Senior Vice President-Investor Relations & Interim Corporate FP&A, Walmart, Inc.

Thank you, Rob. Good morning, and welcome to Walmart's Second Quarter Fiscal 2022 Earnings Call. I'm joined by members of our executive team including Doug McMillon, Walmart's President and CEO; Brett Biggs, Executive Vice President and Chief Financial Officer; John Furner, President and CEO of Walmart U.S.; Judith McKenna, President and CEO of Walmart International; and Kath McLay, President and CEO of Sam's Club. In a few moments, Doug and Brett will provide you an update on the business and discuss second quarter results. That will be followed by our question-and-answer session.

Before I turn the call over to Doug, let me remind you that today's call is being recorded and will include forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements as well as our entire Safe Harbor statement and non-GAAP reconciliations on our website at stock.walmart.com.

It is now my pleasure to turn the call over to Doug McMillon.

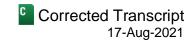
C. Douglas McMillon

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

Good morning, and thanks for joining us. Results for the second quarter were strong. Excluding divestitures, we saw revenue growth of 7.6% in constant currency, leveraged expenses and grew operating income ahead of sales at 24.1% in constant currency. Recent quarters have demonstrated more than ever that our omni-channel strategy is the right one, as we serve customers regardless of how they want to shop. There are occasions when people want to visit a store, times when they want to pick up and times when they want to have it delivered. We're going to keep innovating and executing to get better at all three, as our diversified omni model positions us well to gain share in high-growth markets around the world. I want to thank our associates for the work they did to deliver these results. They continue to step up and serve others in an inspiring way.

Since the pandemic began, we've been clear that our priority is the safety of our associates and those who shop with us. We think it's important that as many people in the US get vaccinated as soon as possible and vaccines be made widely available around the world. As the Delta variant spread and as the potential for future variants persists, we made the decision to require our US teams above store and club level to become fully vaccinated by October 4. At the same time, we doubled the cash incentive to get vaccinated for hourly associates in the US to \$150. We're grateful to those associates that are already vaccinated.

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I'm confident in the fundamental strength of our business even as we navigate the benefits from economic stimulus in the US for both this year and last year. We've proven our ability to serve customers in challenging environments and across multiple channels, formats and countries. The phrase, Serving Customers, has traditionally meant one thing at Walmart, but today it includes serving marketplace sellers, our advertising partners and those that want to use our fulfillment services or proprietary software.

Our advertising business in the US, Walmart Connect, nearly doubled during the quarter versus last year with active advertisers up more than 170%. And this isn't confined to the US. We're growing ad businesses in Mexico, India, Canada and, most recently, in Chile. Our fulfillment services for marketplace sellers continues to scale too. We're on track to hit full-year double-digit GMV penetration by year-end. We also announced during the quarter that we'll serve other businesses through certain in-house technologies used for pickup and delivery. Our partnership with Adobe is an example of that.

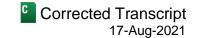
These are a few examples of how we're using our assets to scale new businesses within the company and build new streams of revenue and profit. Our tech and product teams have made a lot of progress modernizing our technology and way of working. We're starting to see the fruit generated by their efforts as we build innovative solutions that have utility across the enterprise. We're starting to see more examples of where one idea or one tech product can benefit more of our businesses and faster. Cloud-powered checkout comes to mind. This technology enables seamless experiences for customers and associates like mobile Check Out With Me, Scan & Go, and self-checkout.

More than 30 applications across five countries are leveraging cloud-powered checkout for retail transactions. Things like building a 360-view of the customer using machine learning is important for our business in the US, but it's also important in other markets. That's why we're now leveraging this technology in Mexico and in Central America. The Ask Sam app that you've heard us talk about was originally built for Sam's Club associates. Now the same concept has been adapted for use in Supercenters. It helps our associates be more productive and better serve customers. I'm really pleased about the work our tech teams are doing to unlock value across the business.

Now let's move on to segment results. I'll begin with Walmart U.S. The underlying business is strong, even as we navigate the many effects of the pandemic as well as government stimulus this year and last year. Customer behaviors changed during the quarter, as people were shopping with us more in stores than online. As that shift occurred, we gained market share in grocery. Even as eCommerce growth slowed as we layered on top of tremendous growth last year, we feel good about our two-year stacks of comp sales and eCommerce growth. The good news for us is that we can serve them either way, and of course they get to choose. We also saw nearly triple-digit growth in advertising sales through Walmart Connect and added thousands of new sellers on our eCommerce marketplace during the quarter.

I like the progress we're making with Walmart Fulfillment Services too. We saw 150 basis points sequential improvement in GMV measured as a percentage of marketplace GMV. Recall earlier this year we announced a step-up in CapEx spending, with heavy emphasis on supply chain in the coming years. This will mean additional capacity and automation from our largest fulfillment centers to our stores. These investments are aimed at increasing assortment to broaden our appeal with customers and get product positioned and picked efficiently to deliver it faster. These investments will increase capacity, help support the growth of Walmart+ and improve productivity. From a merchandising point of view, we launched new private brands in healthcare and pet categories. The new insulin product we're offering is a huge win for customers. We call it ReliOn and it will save customers up to 75% off the cash price of branded insulin products.

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Sam's Club in the US continues to impress. 19 years ago, I got the opportunity to become the chief merchant at Sam's, and I can confirm there hasn't been a time in at least 19 years when Sam's has had this much momentum. They also have strength in so many key metrics, including our most important membership metrics. We saw that story continue this quarter with membership income growth of 12.2%, the fourth consecutive quarter of double-digit growth. Total membership counts are a record high and overall renewal rates, and those for Plus members continue to be strong. Similar to clubs in China and Mexico, members are shopping with us in Club for pickup and delivery. Sam's is an innovation engine for the company, and they're showing us all what's possible with technology products like Scan & Go.

For our businesses outside of the US, we continue to see strong results in continuing markets through a combination of top line growth and operating discipline. Excluding divestitures, net sales increased nearly 13% in constant currency. eCommerce continues to play a bigger role for us. Net sales penetration for eCommerce was about 19% in Q2, an increase of more than 700 basis points from last year. We're strengthening our omni-channel approach in Mexico, China and Canada. In Mexico, we launched Walmart Pass, a membership model where customers get unlimited same-day delivery from stores, completed the rollout of Scan & Go to all Sam's Clubs, added new sellers to the marketplace and grew our online SKU count by 30%.

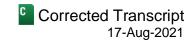
China had a particularly strong quarter, with growth in eCommerce of 75%. During the 6.18 Festival, eCommerce penetration in this market reached 45%. Our business in Canada also had strong eCommerce growth of 41%. We've seen an uptick in Net Promoter Scores there as more customers are shopping with us across channels.

Our eCommerce marketplace in India, Flipkart, continues to drive strong growth in GMV, in line with our high expectations. This team has been busy. They introduced Flipkart Camera, our first of its kind technology at scale for the Indian customer that allows users to view products in their physical environment, expanded their grocery business to over 70 cities and launched a new commerce platform called Shop See to help reach the reseller community. They're also increasing customer stickiness with Flipkart Plus. It's a tiered program based on spend that helps us drive higher repeat rates. Customers and the program transact more frequently, and we see lower churn than others. They also recently completed a new funding round, which placed a value on the business of about \$38 billion, significantly higher than the valuation when we invested just three years ago. There were large votes of confidence from a strong group of investors, and we'll put those dollars to work to deliver growth in key areas such as grocery, fashion and our supply chain. You should see the common threads and leverage points across our businesses. Increasingly, we think about global businesses and global tech products rather than thinking or working a country at a time. There's more of a digital-first mindset here.

Before I close today, I'd like to remind everyone of the new ESG report we published last month. I encourage you to invest time with each of the briefs to understand our priority issues along with the progress we're making against our commitments. For example, on emissions, we've reduced absolute Scopes 1 and 2 greenhouse gas emissions by more than 17% since 2015. Our original target was 18% by 2025. The tremendous progress we've made means we're on track to achieve the updated target we announced of a 35% reduction by the same date. Additionally, our suppliers report having avoided more than 186 million metric tons of CO2 emissions in 2020 for a cumulative total of more than 460 million metric tons avoided since we started Project Gigaton in 2017.

I also want to take a moment to mention an announcement we made on July 27 regarding the Live Better U education program. Walmart will now pay 100% of college tuition and books for associates as part of our commitment to invest nearly \$1 billion over five years in career training and development. This means that roughly 1.5 million full and part-time associates in the US can earn a college degree or learn other skills without the burden of debt. This is a fantastic initiative, giving our associates the opportunity to learn and grow.

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I'll close by thanking our associates for how they serve others and our leadership team for their vision and ability to lead so much positive change so quickly. They built us into a global leader in omni-channel retailing with a model that is uniquely Walmart. Our team is designing with the customer at the center of our flywheel, which is coming together nicely. It's exciting to imagine how far we can go.

And now, over to Mr. Biggs.

Brett M. Biggs

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

Thanks, Doug. Our strong second quarter and the solid start to the third quarter position us to deliver great year of financial results while making steady progress against our strategic priorities. Our results continue to demonstrate the power of the omni strategy, providing customers with new products, services and tools. No matter how customers want to shop, we're here for them. In some periods, in-store shopping will lead the way. And in some, eCommerce will lead the way.

While we're always striving for more in each part of the flywheel, I'm pleased with the overall growth of the business. In Walmart U.S., comp sales grew 5.2% and transactions grew more than 6%, as customers are returning to the convenience of one-stop in-store shopping. eCommerce sales grew 6% in Q2 and 103% on a two-year stack.

We continue to build a very sizable eCommerce business around the world. In fact, we're on track to deliver \$75 billion in global eCommerce sales this year and on our way to \$100 billion in the near term.

We're also seeing continued strong US market share gains in grocery, which is a key part of our business. Sam's Club members are increasingly utilizing curbside pickup for online orders, and the adoption of Scan & Go technology in Club is at an all-time high. The success of Scan & Go at Sam's is one of the reasons we included this as part of the Walmart+ offering.

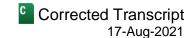
In International, eCommerce penetration is now at nearly 19% of sales, and we're rapidly expanding omni services in key markets such as Mexico. We're also rapidly expanding higher margin businesses like advertising, data monetization and eCommerce marketplace, which gives us flexibility to invest aggressively for the future while growing profit near term.

These businesses are in different places along the maturity curve, but we're scaling them. For example, Walmart Connect US advertising sales nearly doubled in Q2, and we expect the rapid growth to continue. While businesses like our new fintech JV are still in a start-up phase, we know the opportunities are significant and we'll share more in the coming quarters.

Now let's discuss Q2 results. As a reminder, the previously announced international divestitures significantly affect year-over-year comparisons. So my comments today will focus on the underlying business, excluding the effect of divestitures. In addition, the pandemic continues to create both tailwinds and headwinds for the business. US government stimulus benefited sales this year and last year, but many international markets continue to be negatively affected by COVID and related government operating restrictions. COVID costs remained elevated, but significantly lower than last year.

Total constant-currency revenue growth was strong, up 7.6% to more than \$138 billion, with strength across all reporting segments. Walmart U.S. comp sales increased more than 5% in Q2 and more than 14% on a two-year stack basis. International sales growth was strong, up nearly 13% in constant currency with strength in India,

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Mexico and China, while Sam's Club comp sales grew more than 10% excluding fuel and tobacco. Currency benefited sales by about \$2.4 billion. Gross margin rate declined 22 basis points, reflecting category mix shifts at Sam's Club and format mix shifts in International, but Walmart U.S. gross margin increased with favorable mix and strong Walmart Connect results.

SG&A expenses leveraged 78 basis points, reflecting strong sales, lower COVID costs and a 36 basis point benefit from last year's adjusted items, partially offset by increased wage investments in the US. Adjusted operating income on a constant currency basis was up 15.1%, leading to strong adjusted EPS of \$1.78 with a \$0.03 benefit from currency. As anticipated, free cash flow declined about \$8 billion, due primarily to inventory increases from improved in-stocks and higher CapEx.

We repurchased \$2.4 billion of stock in Q2 and \$5.2 billion year-to-date, which is up significantly from last year. This is one of the largest quarters for buybacks over the past two years, demonstrating our financial strength and belief in the value of our company.

Now let's discuss the quarterly results for each segment. Walmart U.S. had another strong quarter. Underlying business trends continue to be solid, including strong grocery market share gains, according to Nielsen, and an acceleration of store traffic. In fact, comp sales increased each month through the quarter, and we're off to a good start with the back-to-school season. On top of extraordinarily strong growth last year, eCommerce sales were up 6% and have more than doubled over the past two years. Strong sales trends were led by grocery, health and wellness, and apparel as well as reopening categories such as automotive, travel and party supplies. Grocery sales were up 6%, including the benefit from modest ticket inflation and increased low-double digits on a two-year stack basis. That results in \$2.4 billion of growth in food sales year-over-year and about \$5.5 billion of growth on a two-year stack. Strong price positioning, great fresh quality and improved in-stocks are driving results.

We're excited about the traction we're seeing in strategic growth businesses. Walmart Connect sales roughly doubled in Q2 versus last year, as we ramp up new advertisers. The Spark Driver platform continues to grow, supporting last-mile deliveries from stores. Over the past 12 months, we've doubled Spark's coverage to more than 500 cities nationwide, providing access to more than 20 million households.

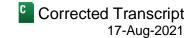
Our eCommerce marketplace is also expanding, and we expect to make hundreds of thousands of additional items available for fulfillment services this year alone. The Walmart business model is evolving, and these newer businesses are contributing to results in a more meaningful way.

Walmart U.S. gross profit rate improved 20 basis points, with lower markdowns and strong advertising revenue, partially offset by increased supply chain costs. Margins were also helped by administering COVID vaccines this year and lapping last year's COVID-related closures of vision and auto care centers. We're continuing to see a bit more cost inflation than normal, but our merchants are working with suppliers and monitoring price gaps to keep prices low while managing margins.

Operating income was strong, up about 12% on an adjusted basis. Inventory increased 20% due to lapping COVID-related inventory effects last year and strong sales growth this year. We continue to monitor industry trends related to transit and port delays. Our merchants continue to take steps to mitigate challenges, including adding extra lead time to orders and chartering vessels specifically for Walmart goods. Out-of-stocks in certain general merchandise categories are running above normal, given strong sales and supply constraints.

International had a great quarter with strong sales and profit growth. Net sales grew nearly 13% in constant currency, including strength in India, Mexico and China. It's encouraging to see the continued progress of our

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large and growing eCommerce business in our markets. eCommerce sales grew 86%, and penetration accelerated more than 700 basis points to nearly 19% of constant currency sales. Comp sales in Mexico increased 4.7%, as the omni-channel strategy continues to accelerate. We're seeing strong response to the launch of Walmart Connect Media in Mexico, with the number of advertisers and campaigns growing rapidly.

Flipkart had another good quarter. Sales growth was strong, even as they dealt with COVID, and we continue to see improving trends in monthly active customers and users. We were excited to take another step to position the Flipkart Group for future growth with the completion of a \$3.6 billion funding round in July that included strong representation from external financial investors valuing the business at nearly \$38 billion. In Canada, COVID-related government restrictions on the sale of nonessential categories like apparel and general merchandise pressured sales and profitability, but we're optimistic that we'll see a more normalized sales and profit environment in the back half.

China comps increased 2.9% and were up 11.6% on a two-year stack, and eCommerce penetration has now reached more than 25% of sales in China. International operating income was strong increasing about 28%, reflecting sales strength, the benefit from lapping last year's discrete tax item and lower COVID costs. Excluding the discrete item, adjusted operating income increased over 12%.

Sam's Club delivered excellent results with strong growth in sales, membership and profit. Comp sales grew 10.6% excluding fuel and tobacco and were up nearly 28% on a two-year stack basis, including strong eCommerce growth. Membership trends were also strong, as we achieved a new high for overall member counts, saw significantly higher renewal rates and delivered record Plus member penetration. Sam's operating income was up 11 5%.

Now let's turn to guidance. We're closely monitoring the evolving COVID impacts around the world. Guidance discussed today assumes a continued strong US economy with no new significant government stimulus for the remainder of the year. All of the guidance discussed excludes the impact of international divestitures. We now anticipate higher full-year sales growth due to the strong first half performance and an expected good back half of the year, with consolidated net sales growth expected to be up 6% to 7% versus prior guidance of a low- to mid-single-digit increase. Walmart U.S. comp sales are expected to increase 5% to 6%, representing about \$20 billion of growth. We anticipate Sam's Club comps to increase 7.5% to 8.5% excluding fuel and tobacco and International constant currency sales growth of 7% to 8%.

We're also raising full-year guidance for operating income and EPS. On a constant currency basis, we expect full-year consolidated adjusted operating income to increase 11.5% to 14%, which is a material step-up from our prior guidance of high-single-digit growth and an even more significant increase from our initial guidance in February. Walmart U.S. adjusted operating income is expected to increase 11% to 13.5%. Full-year adjusted EPS is now expected to be in the range of \$6.20 to \$6.35. This is an increase from prior guidance of low-double-digit growth as well as above the initial guidance of flat to up slightly.

The third quarter has started off well, as back-to-school shopping is underway, and we expect grocery market share gains to continue. We now anticipate Q3 adjusted EPS in the range of \$1.30 to \$1.40, with Walmart U.S. comp sales excluding fuel increasing between 6% and 7%. Again, I'm very pleased with the second quarter results and feel good about the underlying momentum of the business.

Thank you for your time and interest this morning, and we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll now be conducting a question-and-answer session. [Operator Instructions] And our first question today comes from the line of Bob Drbul with Guggenheim. Please proceed with your question.

Robert Drbul

Analyst, Guggenheim Securities LLC

Hey, guys. Good morning. I guess the question that I have is you guys talked about inflation running through. I was just wondering if you can maybe give us some categories that you're seeing the most pressure, how you're adjusting with price and sure what you're seeing competitively with pricing throughout the business. That would be helpful. Thank you.

John R. Furner

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

Hey, Bob. Good morning, it's John. Just a couple of things. First, I want to say thanks to my team for the quarter they just completed and the work they've done to position the business so well for now and in the future. And the merchant team that's as broad as the team at Walmart, fortunately they have a lot of levers that they can use all across the business to make sure our value is right for customers. We've seen strength in food and general merchandise and other categories. And as the environments change, the team, they've just done an amazing job reacting to so many things over the last 18 months and continue to do so. And they've been quite deliberate about ensuring that our value remains strong. I'm happy to report that our price value is as strong as it has been throughout the pandemic and above what it was before the pandemic began. And so the teams doing things like driving strong businesses in apparel and home and general merchandise in addition to food helped them mix out. Inventory management is another key to this. We finished the quarter up about 20%. In inventory, which I think we're well positioned going into the rest of the year based on where the inventory is and we've had strong sell-throughs. The comp sales always help.

So with the cost pressures that we do see across the supply chain, I mean you heard Brett mention that we're doing things like chartering vessels and securing supplies, so we ensure that we're ready for the third and fourth quarter. And we've seen some inflation in the low-single digits. But the thing I watch that I think is just most important is that we see our unit share in categories like food growing faster than our dollar share to ensure that we can position ourselves well in terms of retail value for the customer and play a role in keeping inflation down for the country.

Robert Drbul

Analyst, Guggenheim Securities LLC

Thank you.

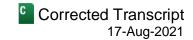
Operator: Our next question is coming from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Simeon Gutman

Analyst, Morgan Stanley & Co. LLC



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Hey. Good morning, everyone. I have one for Doug and one for Brett. And, Doug, mine for you is two parts. First question is if you could give us a sense of the most important strategic imperative that's on your plate. And I was going to throw out a couple, like supply chain, associates, or alternative profit pools. And I know it may be hard to pinpoint one, but I'm curious where the focus is. And then the second part for you, Doug, is how active of a debate is there about plowing money back into the business because EBIT dollars are growing well above the algo. And I'm curious why not put more back into the business when the business is over-delivering.

C. Douglas McMillon

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

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Hey, Simeon. Good morning. As it relates to the most important strategic imperative, the thing that came to mind first was speed. I think innovation and speed may be together. We're trying to change the company. And as we've said to everybody for a while now, our purpose and our values are constant, but everything else is open to change. And we're becoming more digital. We're learning how to work differently. And the reason that I would have that at the top of the list is because that's what bears fruit forever. We've launched new businesses. We've scaled new businesses. A year from now, we're going to be doing the same thing. Five years from now, we're going to be doing the same thing. And so my focus working with this team and with Suresh and everybody else is to try and get into how we're working and increase the speed and innovation and productivity of the company.

As it relates to putting money back in, I think we've been on our front foot for a while and will stay there. And we're not going to give you any additional guidance today as it relates to capital needs or things like that. But as we shared with you back in February, we've got opportunities to play offense. We're confident in what we're doing. We like the assets we've got. I think some people view stores these days as boring. We don't. We love the business that we've got, and we love what we're adding to it. And if we see opportunities to be more aggressive either on the income statement side or the balance sheet, we'll take them and we'll share it at that time.

Simeon Gutman

Analyst, Morgan Stanley & Co. LLC

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Thanks. And I guess the follow-up for Brett is that thinking about 2022 and without giving concrete guidance, you initially set up 2021 as this investment year and now your growth at least for – sorry, for 2022, your fiscal 2022 is coming in faster than you expected. So now that that fiscal growth is coming in better than expected, does it change any algo into next year or are you still confident that the business can keep growing algo going forward?

Brett M. Biggs

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

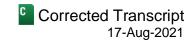
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Yeah, thanks, Simeon. We talked about in February that at that time we gave guidance for this year. We did it assuming there was no government stimulus. We've certainly gotten some of that during the year and we benefited from that. We've been straightforward on that front. So as Doug said, though, we've been front-footed. We continue to lean in. We're making investments where need to make investments. There's nothing that we're pulling back on that we feel is important for the long-term value of the company. And as you look at the longer term growth that we talked about, a 4% type growth for the company longer term, I still feel good about that. I feel good about our ability to grow profit greater than sales as we talked about in February. None of that has changed. But we said at the first year too, year-to-year growth depends some on what we see on stimulus this year which we've gotten quite a bit. So year-to-year, Simeon, we'll come out and talk about that. But longer term, I remain very, very optimistic about the company.

Simeon Gutman

Analyst, Morgan Stanley & Co. LLC

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Thank you.

Operator: Our next question comes from the line of Karen Short with Barclays. Please proceed with your question.

Karen Short

Analyst, Barclays Capital, Inc.

Hi. Thanks very much. Actually, just I guess following up on that. So I think the knock that Walmart would get is obviously that you've been in a perpetual kind of investment cycle. And it does seem that you're in a little bit more of a steady state. So wondering if you could just elaborate a little bit on that with respect to the longer term outlook of where you think you're at on CapEx and wages beyond fiscal 2022 because, again, I think it does seem that the algorithm seems a little bit more sustainable with the sales versus – US sales versus US EBIT relationship.

C. Douglas McMillon

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

Yeah, Karen, this is Doug. I'll go first, and then Brett can chime in if he wants to. The business, it's interesting to think about in terms of investment cycles. The business is always going to make investments, and it's going to grow and it's going to grow earnings. And why can't we do those things at the same time? Why can't we invest capital in automation, for example, and increase productivity and have earnings growth to the degree that we should? We manage the short term and the long term. As everybody knows, we're a company that's particularly focused on the long term, particularly focused on the top line. We'll manage the bottom line. But I kind of would like to push back a little bit on this, are you an investment cycle today, will you be tomorrow. We'll be announcing investments all the time, and you guys should expect us to grow the top line and the returns of the company over time as we do that. The business is changing shape, and I think that's the key. We're not just buying and selling merchandise and Supercenters at this point, we're changing how the company is comprised. If you look at just imagine a bar chart of revenue or a bar chart of profitability, the mix is shifting. And that unlock, as we stick with it, creates a different financial equation than what we would have had years ago.

Brett M. Biggs

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

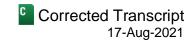
Yeah, I was thinking about, Karen, to five years ago, almost six years ago now, when we talked about that we needed to take the opportunity to invest in wages and eCommerce. And we were a little bit behind where we wanted to be in some areas. And now when we invest, it feels very offensive. It feels like we're improving our competitive position. It's very broad based. When you look at the results this quarter, as an example, of Walmart U.S. and Sam's Club and International, very broad-based strong performance. And to Doug's point, I think we'll continue to be able to do both, grow top line, grow returns, grow bottom line while we continue to invest in the business. I think all of those are a critical piece of what we're doing.

Operator: Our next question comes from the line of Peter Benedict with Baird. Please proceed with your question.

Peter Sloan Benedict

Analyst, Robert W. Baird & Co., Inc.

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All right, guys. Good morning. Thanks for the question. Just one follow-up on one of the previous questions. Just, Brett, you mentioned stimulus impact. I don't know if you can maybe build on that a little more. I mean we obviously know there's been a lot out there, but I don't know if you're able to frame that at all.

And then my other question is just more around supply chain. Management inventory levels looking good. Instocks better. How do you feel about kind of as we look forward to these second half holidays, obviously the comp guide is good. But just access to product for whether it be Halloween, Christmas, that timing of events you're planning, just how are you thinking about that as we think more towards the fourth quarter? Thanks.

Brett M. Biggs

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

Yeah, Peter. It's Brett. I'll start out. I mean, we did – we gave guidance in February that didn't include stimulus at the time. We didn't know it was going to happen, so it was an easier way to give guidance. We've gotten stimulus. Given what's happened in the last 18 months, it gets pretty challenging to try to pick apart what things benefited what part of the business. We know we've benefited from stimulus. But the underlying business is really strong. And John will talk about it in a minute. But what you see in our food business, which sometimes gets overlooked despite the size and the importance of that to our company. Back-to-school is really strong. So I feel good about the underlying business that I see regardless of whether there's stimulus or not.

John R. Furner

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

Yeah, morning, Peter. This is John. I'll just pick up where Brett left off. As Brett mentioned in the opening comments, the comps improved sequentially each month of the quarter. And we feel great about that momentum. Our team has worked really hard this year to position the business well going into this what seems to be a strong back-to-school season early. We're happy with the results in categories like apparel and stationery and others that you would expect in a strong time like this.

I mean as far as the supply chain, the team, really proud of the work the team has done and thankful that we have such an experienced team who can manage these types of disruptions that we've seen around the global supply chain. So we've chartered vessels, as Brett said. We've secured capacity for the third and fourth quarter and feel good about the inventory positioning, particularly compared to last year, with inventory up 20% across the segment. So I think we're in good shape going into the third and fourth quarter. Of course, we'll manage this the entire time and look for strong results as we get into the third quarter.

C. Douglas McMillon

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

Be good to hear from Kath and maybe, Judith, if you want to, on supply chain challenges around the world. Sam's faces the same set of issues, whether it's the tailwinds from stimulus or what's happened with supply chain. And you've got some seasonal categories where you can read sales earlier than we would in Walmart U.S.

Kathryn J. McLay

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

Yeah, certainly we saw strong seasonal sales through Q1, particularly in our GM areas and that was certainly assisted by stimulus. But what we're seeing in Q2 is that same strength continuing. So whether we're seeing in back-to-school, in Halloween or fall, we're seeing our members highly participating in those categories. And we thought we bought aggressively. We wish we'd bought even more aggressively. I think there's a lot of upside in that space.



Judith McKenna

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

Yeah, in International, it's very similar trends in some of our markets that John outlined. One of the unique capabilities that Walmart has is its scale and its ability to leverage across that scale. So we've worked with the US businesses, with the Canada business, particularly, and through Mexico business to try to make sure that we keep in stock for the customer front of mind. We're continuing to see strength in all of the categories that we've got, but we're prioritizing the holiday season coming up. And in India, we're prioritizing Big Billion Day, which is their Diwali festival, which is coming up in early November.

Operator: Thank you. Our next question comes from the line of Steph Wissink with Jefferies. Please proceed with your questions.

Stephanie Wissink

Analyst, Jefferies LLC

Good morning, everyone. Thanks for taking our question. We'd like to focus on omni and eComm if we could. I think, Doug, you mentioned in your prepared remarks that the business is becoming more global in orientation versus regional. And I think you also said – or stated some really strong penetration levels for eComm in some of your international markets, in places like China on 6.18 and other events. I'm just wondering if you can talk about your \$100 billion eComm channel goal through that lens of international. How do you think about the international markets influencing maybe the domestic market or vice versa in terms of your investment strategy? Thank you.

C. Douglas McMillon

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

Yeah, thanks for the question. I'll get Judith to chime in here, too. It's exciting to see what's happened. And it hasn't been forced by us. But the world changed as it became more digital. And the business models and the products we need to build, the work we need to do ends up being even more common than it was before, it feels like. And so with the shift in the International portfolio that Judith has led, we find ourselves positioned, with the Flipkart investment in particular, towards more of a digital business and more of an eComm business. I started learning about eComm for food from the UK many years ago. Then we all saw China explode.

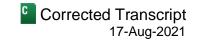
Now we're living in a very different environment in India versus what we see in the US. And Walmex, Judith, has become more of a digital company and looks more like the US in some ways. And so it's exciting to see a pure eCommerce percentage for International and for the total company grow. I think the story that gets buried there is that the business overall is becoming more digital in its mindset.

Judith McKenna

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

Yeah, we've definitely seen a transformation in the way the businesses are thinking. India is slightly different because Flipkart of course and PhonePe, our payments business there, have always been digital first. And we've learned an awful lot from them. And I'm so encouraged by what I'm seeing out of India. You've got to remember this is a market where digital penetration was really quite low when we made our original investment, and that has just continued to increase. And I think the circumstances of the pandemic have helped to reinforce that as well. And we were really pleased to see that \$38 billion fundraise for India that we did recently and the quality of the investors that we got there, I think, is testament to the way that that business has a future growth trajectory as well.

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But all around the world where we're seeing the real step-up is in omni-channel. Very similar again to US trends. In Canada, you saw that we reported a 41% growth for the quarter. That business continues to build. But really Mexico, Walmex is the one that's building out an ecosystem, and it has been through a digital transformation for the entire business to work in a much more agile way and looking at the way that they're connecting the customer with a digital offering. So whilst you have got the pure online business which is marketplace, you've got the omnichannel business. They're also expanding into areas such as telephone and Internet, provision of services for customers, which is absolutely critical because so many people in Mexico don't have access to Internet services. So this is a way of bringing people in to the top of the funnel. So, yeah, really pleased to see the level of online penetration and the scale of the business that we're building in International.

C. Douglas McMillon

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

The only other thing that came to mind was the difference between input metrics and output metrics. The \$75 billion number on its way to \$100 billion is an output metric. We're focused on how do you do a better job with all the inputs related to omni. And that's hard work in building digital products that marry eCommerce with stores takes more work than just building an eCommerce solution. It takes more time, it takes more complexity, but that's where the secret sauce is. And if we continue to blur the line so that customers and members can shop however they want to shop, whenever they want to shop, the output metrics that we sometimes measure of eComms versus store growth, for example, they'll be what they are. But this quarter is kind of a good example of the fact that we can be somewhat indifferent. We're trying to build a model where we're completely indifferent, top and bottom line, as it relates to how people shop. And so I think we started that and still have a lot to do to deliver on that goal.

Operator: The next question comes from the line of Edward Kelly with Wells Fargo. Please proceed with your questions.

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

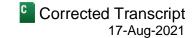
Yeah, hi, guys. Good morning. Two-part question. Gross margin in the US, could you just talk about your expectation as we think about the back half of the year? You're up on a two-year stack basis about 30 basis points in Q1. That accelerated in Q2. Is that difference really vaccine? And then over the next couple of quarters, how are you thinking about that dynamic, given that it does seem like some of the inflationary pressures and product cost probably accelerate? And then the second thing I just wanted to ask about is Sam's Club. Grocery really seemed to accelerate sequentially unless I did the numbers wrong here. Can you just provide us a little bit more color in terms of what you saw there? Thank you.

John R. Furner

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

Hi, Edward. It's John. Let me take the first question and then I'll hand it over to Kath to talk about the momentum at Sam's. As far as the margin rates that we reported in previous quarters and the way we're thinking about this is it's all about positioning value with our customers and then the mix of what we're selling. And let me talk about value for a second first. We're really proud of the price gaps that we're seeing at this time, which are at prepandemic levels and beyond. As I said earlier, it's really positive to see that the unit growth in big categories like our food department are higher than the share gains that we see in dollars. So relative value is something we think about a lot.

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As far as then the results that you've seen, it's a function of mix and then a strong performance by our US supply chains. The teams have just done a number of things to ensure that flow is strong and that would include everything from offshore to onshore properties like our distribution network. And in particular our food distribution team has done an amazing job keeping products moving. And then ending the quarter, I feel really good about our inventory position, starting with this very strong back-to-school season that we're seeing, which would include our apparel business, our stationery business and other businesses like lunchboxes and backpacks and all the things that you'd expect for kids to return to school have been off to a good start, and then the mix of inventory going into the quarter, we're up about 20% from where we were a year ago. And I think that's a result – the result of that has been the stronger comps that we're seeing each month of the quarter as the quarter progressed. But I'll turn it over to Kath to talk about the really strong momentum at Sam's.

Kathryn J. McLay

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

Yeah, so thanks for the question. I think we're proud of the comp of 10.6% this quarter. I'm most proud also of the two-year stack of 27.8%. And strength is coming through grocery. You're right. We're seeing that grow in the midteens. But I'd also call your attention to the GM side of it as well too because we're really proud to see that home and apparel business growing at the rate that it's grown over the last two quarters as well. So some real strength

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

coming through across the box.

Thank you.

Operator: Our next question comes from the line of Robby Ohmes with Bank of America Securities. Please proceed with your questions.

Robert F. Ohmes

Analyst, BofA Securities, Inc.

Hi. Good morning. I had just a follow-up actually on the US eCommerce business. You decelerated to, I guess, 6% against really tough comparisons. But maybe can we get some more color on sort of how pickup versus delivery and Spark and maybe versus Ship to Home kind of played out and what the expectations might be built in for eCommerce for the back half and how we should think about it? And then maybe also to that is if there is this shift moving back to in-store, can you remind us if that's supporting or will be supporting gross margins for the US business in the back half as well?

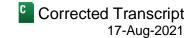
C. Douglas McMillon

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

Yeah. Looking at the business, first thing that I would just remind everyone that we've been talking about for a while is that we've positioned this business to serve the customer however the customer wishes to be served. And that would include pickup, delivery to home and shopping in store. And so late in the first quarter, we definitely saw a traffic shift back into store from eCommerce and pickup. And that continued early in the quarter. And just as a reminder, as you said, we were up against strong comparisons, particularly early in the quarter. And so that resulted in the total business running about 103% for the two-year stack. So we doubled the business over the last two years, and we feel great about that.

We also feel great about the capacity that we put down last year. Our pickup business was quite strained early in the pandemic as well as inventory availability. And over the last 18 months, the team has done a great job

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building more capacity into pickup and also finding new ways that they can ship customers. So when a customer orders from Walmart.com, at times we fill from fulfillment centers. Other times, it's from stores, and sometimes it's the combination of the two, wherever the inventory is. And we try to keep the customer promise in mind to ensure that we're fulfilling in the best way possible.

So the mix of the business definitely shifted in the quarter. I think what we're seeing early in the third quarter, as I said again, a strong back-to-school season, which would include apparel and brands that we've launched online. We've launched about 1,000 brands in the last year online and feel very great about the potential those have. So we'll be positioned and ready depending on where the customer shifts. Certainly we're monitoring changes geographically around the country as it relates to the pandemic and the Delta variant, which are some of the things that caused the changes that happened last year in the first and second quarter.

Operator: Our next question comes from the line of Kate McShane with Goldman Sachs. Please proceed with your question.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Hi. Thanks. Good morning. Thanks for taking my question. I was curious with regards to Walmart Connect. Just with regards to the advertisers you're signing up, is it really across the board in terms of your vendor base or is it mostly in grocery? And is there a way to quantify how much this contributed to margin?

Brett M. Biggs

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

Well, let me talk about just general mix in business. Doug mentioned earlier that we're focused on changing the way of working all across the business. I'm really proud of the work that our product team and our tech teams have done in the last few quarters to ensure that we are ready for the customer however they wish to be served. And over time, what we've seen and what we'll continue to see is a really positive change in mix to the overall structure of the way we think about the business, our input metrics, our output metrics and our P&L. And those mix improvements are coming from things like advertising, our marketplace, fulfillment services, rental incomes are stronger, and the physical environment, our membership income, and then as we said earlier, doing things like having software licenses and using Software-as-a-Service to others. So all of those are strong, and we did say that advertising just about doubled for the quarter. We're up 95%. And then our active advertisers was up even more than that. So there is strength amongst the advertisers across the board, and then expansion of our marketplace and fulfillment services will only enable future growth of the advertising business.

Operator: Thank you. Our next question is from the line of Rupesh Parikh with Oppenheimer. Please proceed with your question.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Good morning. Thanks for taking my question. I wanted to dig deeper into the drivers of the grocery acceleration you saw during the quarter. I was curious if you can comment more on some of the internal factors supporting that acceleration and then also some of the external factors, whether Child Tax Credit or COVID cases spiking. Thank you.

John R. Furner

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

Yeah, grocery was strong throughout the quarter. And as Brett mentioned earlier, certainly there have been some benefits of stimulus and other programs that would have helped. I think what I think is most encouraging that I'm seeing inside the business is the capacity and abilities that have been built in the quarter by the supply chain network here at Walmart along with our supply base. And our suppliers, I'd like to say thank you to them as well because without them we wouldn't be able to do the things that we're doing in food right now. But the business, they're running record volumes through our supply chain network each and every week. We've seen extremely high volumes in stores. We've seen growth with our pickup business and with our eComm business and food. So all across the board, we're just excited about some of the progress and some of the product improvements that we've seen in categories like produce and meat, and the momentum is very helpful. So the shared numbers are also positive. And I've said this probably three times, but it's an important and I'll just say it again. We are very encouraged that units are growing faster than dollar share in grocery.

Brett M. Biggs

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

There's a lot of tonnage going through. And I'd just underline fresh. John mentioned produce and meat. The team back before the pandemic started had a rollout of something we call Produce 2.0, which improved the presentation of fresh produce but also capacity. So it was really well timed, given what happened during the pandemic. And as I go into stores, produce is standing tall and has throughout. From an in-stock point of view, it's been one of the bright spots in terms of us being able to get product and display it well. And then Sam's Fresh performance has been really strong too. It's one thing to stay in stock on corn flakes. It's another to merchandise fresh. And the teams have done a nice job during this period.

Kathryn J. McLay

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

Yeah, and I think we've started remodeling half of our fleet, and in what we call bold and blue. And it really makes the merchandise stand tall. And so I think taking away some of the clutter in the Clubs and making the merchandise the hero has enabled our fresh sales to kind of continue to grow as well.

Operator: Our next question comes from the line of Michael Lasser with UBS. Please proceed with your questions.

Michael Lasser

Analyst, UBS Securities LLC

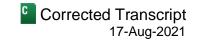
Good morning. Thanks a lot for taking my question. On the subject of market share, it's done a sharp reversal from the last year. How much would you attribute to your initiative, whether it's fresh presentation, pricing or instocks versus just the macro where the consumer might have got extra money from the Child Tax Credit or a stimulus check, went to the store to buy general merchandise and while he or she was there stocked up on groceries? My follow-up is on Walmart Connect. Really good advertising businesses in eCommerce space, represents 5% to 10% of GMV. Is it fair to think that you're still in the nascent stage of maybe 1% to 2%? And where can your penetration go? And are you seeing that it's incremental to your relationship with your vendors or is it coming at the expense of other forms of payments they might be making to you? Thank you?

Brett M. Biggs

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

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Hey, good morning, Michael. Thanks for the question. Let me talk about food first. I think everything you said would be on the list of things that are helping. And that would be better pricing, better availability in stores, quality of product, the supply chain again. My hat's off to them for all the work that they've done the last 18 months, but in particular the last quarter. They have just performed very well. Also just a reminder that last year we had shorter operating hours in stores across the country. In many cases, some of our entrances and exits had been closed. Some of our peripheral services, like optical and the auto care centers, were closed to free up staffing to run the core pieces of the business. So I think, in general, the entire business is positioned better than it was a year ago.

Certainly we'll react geographically and ensure that associate safety and customer safety are prioritized throughout this wave of the pandemic, but our team is well equipped to make the best decisions to be able to do that.

As far as the Connect business, it's growing. We certainly would say that we're in a good position for growth now, but continued growth in the future. Being able to double in the most recent quarter is exciting. And then the strength of the eCommerce business, including the marketplace, is what enables that growth over the long term. We rebranded the business from Walmart Media Group to Walmart Connect last year, and that was just to make sure that it was very clear that this opportunity is going to help us connect buyers, sellers, suppliers and customers all together in a way that's accretive to the customer experience. And as long as we do that, I will remain very, very bullish on the growth potential in this business.

Operator: Thank you. The next question is coming from the line of Oliver Chen with Cowen. Please proceed with your question.

Oliver Chen

Analyst, Cowen & Co. LLC

Hi. Thank you very much. Doug, as you think about Walmart as an ecosystem, what's ahead for healthcare? You've had a lot of innovation with the Reliant product as well as urgent care centers. Would love your thoughts on relevance to the customer and the context of that in the pharmacy as well as Walmart+ and what stage you are in there as you test, read and react and refine that membership program. We'd also love your view, John, on micro fulfillment centers and what's ahead for the degree of automation that you'll see in the future and the capabilities that you want to build as you continue to innovate in curbside and delivery. Thank you.

C. Douglas McMillon

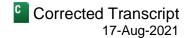
President, Chief Executive Officer & Director, Walmart, Inc.

Oliver, the way that things get stitched together is important. And being a large seller of food is helpful as it relates to the role that that data and the relationship we can ultimately build with the customer relate to healthcare. And so it's exciting in the US, and I hope ultimately around the world, to play a role in healthcare that helps people get high-quality care at a really good value in an accessible way, enabling them to take more control over their own health and their situation.

And John will comment more on this in just a second, but the work we did to build some clinics has been helpful, and I think we'll have more clinics in the future. But the clinics aren't the thing on its own. It's how we stitch this whole thing together from telehealth and the role that healthcare plays in the home, on mobile devices, how you triage a customer when they start to interact with you, to direct them to the place to get the right care at the right time. And sometimes, that will include a trip to the store and the clinic. Sometimes it will be a telehealth experience that they have in their home or somewhere else.



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And so we're putting building blocks in place. It feels, John, like we've got a lot of ingredients on the table, including the addition of Dr. Cheryl Pegus, who is now leading that business. The strategy is increasingly clear to us. The pieces are on the table. We're going to need some time to execute it because healthcare is so local. And we've learned a lot about that in the last of couple years with these clinics. And so I continue to be really excited about the role we can play and am pleased with the steps we're taking forward.

John R. Furner

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

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I feel exactly the same way. I think the combination of a digital relationship in addition to being local between Walmart and Sam's and our pharmacy network in over 5,000 communities is a big piece of the answer. That could include having your entire session online. It could include what you buy in terms of your food and how you consume. It could include going to clinic. It also includes the pharmacists that we have across the network who have just done such an amazing job this year helping the country with vaccinations. And it's great to see them practicing at the top end of their license, and they've made such a difference. I'm really excited about what's coming in healthcare. I think we can make a big difference for our customers.

C. Douglas McMillon

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

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And Walmart+ can play a role in how food and healthcare come together. There's just so much opportunity, and you can imagine what happens with data there with all the appropriate privacy and protections in place. I think the future of Walmart+ just is kind of like this continuous berm for us, where we add things to it, it becomes even more unique to Walmart. Of course, delivery is a big part of it, but there will be other components too.

John R. Furner

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President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

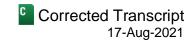
That's right. That's right. And so much of health is really determined by social determinants of health, which a large part of that is what you consume and being able to have access at your home to fresh foods as part of the program is really important.

Oliver, your second question on market fulfillment centers, another area that I'm really excited about. And the big headline I think that's important is that we are learning very quickly how to use our supply chain assets, including local assets, upstream assets, distribution assets, very dynamically to be able to move product and assemble orders in a way that is most efficient to meet the customer promise. And so these market fulfillment centers will help us not only with local capacity, but they'll help us keep orders consolidated all the way to the point that they move into our last-mile network, which is the Spark network that we mentioned earlier. And the team, led by Tom Ward, are just doing a fantastic job building capacity, capability.

Just the other day, I ordered something on Walmart.com at 10:00 in the morning. At 11:45, it was sitting on the front porch and had been delivered. So the stories and the ways that they're learning to delight customers ahead of expectations is really unique, and it is an advantage of having so many locations locally around the country and the ability to scale this I'm excited about. The automation is going to help. And next time that we're able to host you here, we should be able to show you a facility here locally that will be quite interesting.

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

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C. Douglas McMillon

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

Well, thank you, again, for your interest in the company, and I want to thank this leadership team and of course our associates. This team is building for the mid to long term and they're doing a great job of managing and performing in the short term. Navigating a pandemic, keeping the stores in stock, serving customers and members, while we change the business to be more digital. As I mentioned earlier to get faster, more innovative, more productive, as we build it. And it's actually a lot of fun. It's challenging. This continues to be a challenging year, and our folks on the front line are doing a great job. But just want to express my gratitude. Thank you, all.

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

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