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Walmart, Inc. (WMT)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, welcome to Walmart's Fiscal Year 2022 Third 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, Senior Vice President 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 Third Quarter Fiscal 2022 Earnings Call. I'm joined my 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 US; 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 an update on the business and discuss third 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's now my pleasure to turn the call over to Doug McMillon.

C. Douglas McMillon

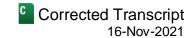
President, Chief Executive Officer & Director, Walmart, Inc.

Hello, everyone, and thanks for joining us. We continue to have momentum. Sales were strong throughout the third quarter, and we've seen a good start to the fourth quarter thanks to all the thoughtful planning and hard work from our associates. In addition to visiting stores and Sam's Clubs in the US this quarter, I also got to visit stores with the Canadian leadership team in the Toronto market. It was a reminder that our associates around the world have served others throughout this pandemic with courage and resilience. Our Canadian stores had some great items for Diwali, we sold through Halloween well, and the seasonal areas were ready for Christmas.

In the US, we're ready for the holidays too. There's a level of excitement in the air. You can feel it. I've been walking away from these stores with a recurring thought. We're ready. We have the people, the products and the prices to deliver a great holiday season. Around the world, so many families depend on us for food, apparel, home items, TVs, and seasonal items like toys and Christmas trees. They trust us to have what their looking for and at the right price. And while this year has its challenges, we're in position to serve them.

All segments saw strong top-line gains in the quarter, excluding divestitures, and I could not be prouder of our team. They continue to solve problems and move with speed. Walmart US drove a sequential acceleration in comp sales both on a one- and two-year basis and continued to gain market share in grocery. Sam's Club had

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another very strong quarter as did Walmart International with China, Mexico, and India leading the way. Customers and members are shopping with us across channels, and we're making it easier for them. Speed matters. That's why we offer fast same-day delivery to millions of customers around the world.

Walmart has served customers across economic cycles for more than 50 years. Each one is unique, and they require us to adapt. In this latest cycle, the pandemic caused shifts in how customers and members shopped and what they purchased. The long period of sustained demand for goods has stretched supply chains, resulting in out-of-stocks and inflation. Fighting inflation is in our DNA. Sam Walton loved that fight and so do we. I want to thank our truckdrivers, merchants, replenishment teams, our associates that move inventory through the supply chain and our suppliers. They're working together creatively and quickly. We have lots of variables to manage to deliver everyday low prices to customers and simultaneously strong financial results for our shareholders. And we're using them.

We continue to make progress on our strategy. The team is moving fast and being aggressive as we build the pieces of our flywheel. In the US, Walmart GoLocal for last-mile delivery is an example. We're excited to have the Home Depot join Walmart and Sam's Club to share our white-label delivery-as-a-service platform. This service is powered by our proprietary driver platform, Spark Driver. The technology behind it is now available in Mexico as we learn to build more digital products that can be leveraged globally. Spark continues to grow and is now active in 900 US cities providing access to more than 50% of US households. And we're just getting started.

We recently enabled a new feature within the Spark Driver app called Shopping and Delivery which gives service providers the option to shop and deliver customers' orders. So, if delivery slots are full at a location, this feature allows us to serve that demand. The Spark platform has a lot of potential in the US and beyond.

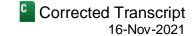
Selling advertising is another important piece of the flywheel because it helps suppliers and Marketplace providers sell more while creating a new profit opportunity for us. Globally, we continue to see rapid growth in advertising income led by the US, Flipkart and Mexico. We're also making good progress with PhonePe, and we're starting to ramp in Canada and Chile.

Beyond advertising income, we're creating new ways to gather and analyze data to fuel smarter, faster decision-making to better serve customers, members and suppliers. Earlier this quarter we launched Walmart Luminate in the US, which is a new suite of data products created for our merchants and suppliers to reveal actionable category and item insight. Our sales team is getting started, and we're encouraged by the number of suppliers that have already signed up and their feedback.

Our work to become a regenerative company continues. We had an off-site recently with over 50 of our leaders from several countries to imagine what more we can do and how we can pick up speed. Environmental, social, and governance issues are important to us, and we're committed to continuing our leadership. In September, we issued our first ever green bond at \$2 billion. It is one of the largest yet from a US-based company. Proceeds are to be used to fund projects like renewable energy, high-performance buildings and zero waste.

While we've been investing in environmental sustainability projects for years, the size and design of this bond is aligned with the bold commitments we've more recently made. We hosted our sustainability milestone meeting in October. Many of our suppliers, NGO partners and associates attended. We shared a new goal at the meeting to achieve a 15% absolute reduction of our virgin plastic footprint by 2025. We think this goal and others announced at the meeting will move our business in a direction that is good for the planet and good for business by giving our customers the things they love without the things they don't.

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Now let's move on to segment results. I'll begin with Walmart US. Comp sales of 9.2%, or 15.6% on a two-year stack, is remarkable growth. The gains we've seen in market share for grocery and strong back-to-school results indicate our inventory position has improved. Prices and assortment are compelling, and customers continue to move away from early pandemic behaviors. We see tailwinds in our results. A strong consumer, a degree of inflation, and government stimulus are all factors, but I also like what I see in the core of the business.

Transaction counts in our stores and clubs are growing. Inventory is up 11.5%. Our price gaps are where we want them and we're innovating in the supply chain and adding capacity. And we're building businesses like Walmart GoLocal, Walmart Connect, Walmart Luminate, Walmart+, Spark Delivery, our Marketplace, and Walmart Fulfillment Services. Financial services is another area where we know we can make a difference in the lives of so many. We recently launched bill payment services in our stores as well as the ability to load money to a bank account or a prepaid card.

Moving to Sam's Club US, comp sales were strong at 13.9% excluding fuel. Membership is the lifeblood of the club model. Growth in membership income of 11.3% is the fifth consecutive quarter of double-digit growth. Membership count reached a new record high during the quarter, and overall renewal rates were strong across the board including first-year renewals and those for Plus members. Both individual and business members are shopping with us across channels and using the digital tools we've developed. The new Don't Forget function with Scan & Go is a great example. It's a completely digital way for us to help members and drive basket size at the same time.

Based on a member's shopping history, we can target items that a member may be forgetting in their trip all through the app, and we already see an increase in the number of items in the basket. We're also expanding delivery options at Sam's. We now offer same-day delivery for 440 clubs using our Spark Driver network.

Turning to Walmart International, we had another quarter of strong growth with sales up 10.3% and profit up even higher at 17.5%, excluding divestitures and currency. We ended the quarter in great shape on inventory and price gaps. Back-to-school and other fall celebrations helped drive traffic for us as families began to get back to normal shopping patterns. The festive season is off to a strong start with Big Billion Days in India. We continue to see strong growth in eCommerce. On a two-year stack, sales increased 91% led by Flipkart and China.

We've talked about the importance of omnichannel globally and we continue to see the build-out of these models across markets. Our small Sam's Club depots that extend the reach of our large clubs in China helped deliver eCommerce growth of 96% with incredibly fast delivery for everyday items. In Mexico, we continue to expand same-day delivery and Express Delivery orders quickly reach customers using crowd-sourcing capabilities. And in both Mexico and Canada, the expansion of omni capabilities is driven by technology that we've developed to share across markets, further leveraging our scale.

Our International markets are building flywheels that have common characteristics with each other and with the US which helps us innovate and leverage the technology we're building. Our store and club formats are well-positioned. We're moving quickly to add and expand more digital businesses, including eCommerce and payments, to create new business models. We're innovating for our customers, like the recent expansion of Flipkart SuperCoins across platforms. We're also making important investments for the future while delivering profitable growth today. You see examples of these investments in our supply chain in India and Mexico, new clubs in China and store remodels in Canada. The team is delivering on its purpose of driving long-term sustainable growth for the company.

With that, I'll close today by thanking our associates around the world for what they do each day to serve our customers and drive results. The holiday season's here, and we're ready. Our teams have been working hard to ensure we have the people, the products, and the prices that will help make this season special for everyone.

I'll now hand it over to Brett.

Brett M. Biggs

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

Thanks, Doug. In the third quarter, momentum continued with strong sales and profit growth in each of our segments while continuing to accelerate our strategic priorities. We're off to a good start for the holiday season and in good position to continue delivering strong results. Despite the various macro and industry challenges, our inventory position is good. Stores and fulfillment centers are well staffed, and our price position remains strong. Customers should expect to find the items they want at great values, and we are ready to serve them however they want to shop. Our omni model is a substantial competitive advantage as shopping behaviors continue to evolve. Customers want choices in how they shop and our unique set of assets with a network of stores, expanding digital capabilities, robust distribution networks and innovative services very effectively serve their evolving needs.

Walmart US comp sales grew 9.2% including nearly 6% growth in transactions with in-store shopping leading the way.

eCommerce sales growth was up 8% in Q3, against strong sales gains last year resulting in an 87% two-year stack. We continue to see strong market share gains in grocery this year as well as unit share gains on a two-year stack. Sam's Club had another outstanding quarter with comp sales growth excluding fuel and tobacco of 15.5% including more than 10% growth in transactions and 32% growth in eCommerce. Membership counts hit another record high and renewal rates remain strong.

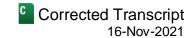
International results were impressive including eCommerce penetration of around 19% as omni services scale across key markets. For example, Canada has expanded online grocery pick-up from stores nationwide, while in Mexico customers' Express Delivery orders conclude shipped via gig drivers in under 90 minutes from 120 stores.

We continue to make good progress on accelerating the flywheel. We're seeing increased contributions from growth businesses such as advertising, eCommerce Marketplace, and Spark last-mile delivery. Our delivery reach is expanding, and our scale enables us to monetize this capability by offering same-day services to other merchants through our Walmart GoLocal's B2B initiative.

Now let's discuss Q3 results. As a reminder, the previously announced International divestitures significantly affect year-to-year comparisons, so my comments today will focus on the underlying business excluding the affected divestitures. Also, COVID costs remain elevated globally although lower than last year in most markets. In addition, EPS includes a \$0.67 negative effect for premiums paid for bond tenders which allowed us to retire higher-rate debt to reduce interest expense in future periods.

Total constant currency revenue grew more than 10% to over \$139 billion. Walmart US comp sales momentum remained strong, up 15.6% on a two-year stack due in part to strong US consumer spending and some inflation. Strength in China, Mexico, and India led to International sales growth of more than 10% in constant currency. Strong trends at Sam's Club continued with comp growth of nearly 31% on a two-year stack, excluding fuel and tobacco. Currency benefited sales by about \$1.3 billion.

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Gross margin rate declined 51 basis points due primarily to increased supply chain costs and headwinds from fuel mix in the US segments, as well as format mix shifts in International. However, total gross margin dollars grew 9.6%. SG&A expenses leveraged 13 basis points reflecting strong sales and lower COVID costs partially offset by increased wage investments in the US. As a result of these investments, we've seen a great response to our holiday hiring programs with the addition of over 200,000 new store and supply chain associates.

Operating income on a constant currency basis was up 6.3% leading to adjusted EPS of \$1.45. As anticipated, free cash flow for the year is about \$8 billion lower than last year primarily reflecting inventory increases and higher CapEx. We repurchased \$2.2 billion of stock in Q3 and \$7.4 billion year-to-date, up significantly from last year. I'm pleased with the improvements in ROI even as we've made strategic investments, with reported ROI increasing 80 basis points to 14.5% which is among the best level in four years.

Now let's discuss the quarterly results for each segment. Walmart US had another good quarter aided by strong consumer spending, stemming in part from government stimulus and inflation. Strong sales trends were led by grocery, health and wellness, and apparel. Back-to-school categories also performed well along with automotive and holiday décor. We're pleased with the strong momentum in the grocery business, as our strong price positioning and omni offerings resonate with customers. Grocery sales were up nearly 10% as strong unit growth and low- to mid-single-digit inflation benefited results. In fact, food sales grew \$3.6 billion during Q3, which is the strongest quarterly growth in six quarters.

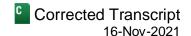
We're continuing to enhance and scale our strategic growth businesses. Both national and local partners have shown strong interest in our new Walmart GoLocal business while the Spark Driver platform continues to expand nationally. Walmart Connect advertising sales have increased nearly 240% on a two-year stack, and in Q3 we launched a new demand-side platform in partnership with The Trade Desk to expand off-site media offerings. We also added around 21 million items to our eCommerce Marketplace assortment during the quarter, significantly increased the number of items available for expedited delivery and saw continued strong growth in Walmart Fulfillment Services penetration.

Walmart US gross profit rate declined 12 basis points, reflecting increased supply chain costs. We're seeing inflationary cost pressures in some areas, and our merchants remain laser focused on taking the necessary steps to mitigate supply chain congestion while working with suppliers and monitoring price gaps to manage margins appropriately. Lower markdowns and increased contributions from advertising revenue have helped offset cost pressures.

SG&A expenses deleveraged 20 basis points due primarily to investments in wages, but operating income was strong, up almost 6%. Inventory increased 11.5% in preparation for what we expect to be a strong holiday season. The steps taken to mitigate transit and port delays have positioned us well, including adding extra lead time to orders, chartering vessels for Walmart goods, rerouting deliveries to less congested ports and expanding overnight hours at key US ports.

International had a great quarter with double digit sales growth, strong momentum in eCommerce across key markets and operating profit growth outpacing sales. eCommerce sales in constant currency grew 33% on top of strong gains last year, with growth in China, Flipkart, and Mexico particularly strong. We've nearly doubled eCommerce sales in International over the past two years and it's encouraging that our ecosystem is expanding and developing in areas such as digital advertising. China counts were quite strong in Q3, increasing 16.5% with continued strength from Sam's Club as well as more than 90% growth in eCommerce sales. During the Mid-Autumn Festival, sales were terrific, and we saw an acceleration with omni performance with nearly all hypermarkets setting online sales records during this event.

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Flipkart had another good quarter with strong sales growth and favorable trends in monthly active customers and users. In anticipation of the holiday season, the team has doubled fulfillment capacity versus last year with dozens of new fulfillment center locations, more than a thousand last-mile delivery hubs and expanded relationships with Kirana partners to handle large percentage of last-mile deliveries.

Comp sales in Mexico increased 6% and grew faster than the market according to ANTAD with strong consumer spending on categories related to back-to-school and seasonal celebrations. Customer adoption of omni offerings continue to grow, and we're seeing a strong response to the launch of Walmart Fulfillment Services with onefourth of Marketplace sales fulfilled through this network.

In Canada, comp sales were up 6% and increased more than 13% on a two-year stack. Seasonal sales events were especially strong, and omni sales continued to increase. Online grocery is now available in nearly all stores, and we've launched express pickup within two hours in a couple stores in Toronto. International operating income in constant currency increased 17.5% reflecting strong sales and expense leverage.

Sam's Club continued to deliver excellent results with strong growth in sales, membership and profit. Membership income was up more than 11% as we achieved another record in member counts, strong renewal rates and increased Plus member penetration. Sam's operating income was up more than 10% as strong membership income and expense leverage more than offset gross margin pressure from supply chain costs, fuel and inflation.

Now let's turn to guidance. We anticipate Q4 Walmart US comp sales excluding fuel increasing around 5% resulting in over 6% gain for the full year. Annual adjusted EPS is expected to be around \$6.40 for the year representing 17% growth. We continue to make good progress on our capital investments, but we now anticipate the timing of some investments originally planned for this year will flow into next year. As a result, we expect fullyear CapEx to be around \$13 billion versus our original guidance of \$14 billion. In closing, I'm very encouraged by the Q3 results and am optimistic about Q4. I continue to be very excited about the evolution of Walmart into a one of a kind omnichannel company. Thank you for your interest this morning, and we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Mr. Lasser, please proceed with your question.

Michael Lasser

Analyst, UBS Securities LLC

Good morning. Thanks a lot for taking my question. When you laid out your algorithm of generating 4% top-line growth and better than 4% operating income growth, inflation wasn't nearly as hot as it is today particularly with respect to wage inflation, so looking out over the horizon over the next several quarters, how does the current environment impact Walmart's ability to sustainably generate this algorithm and into next year, especially, Brett, as I think you just mentioned that some of the investments you were going to plan to make this year have been delayed into next year?

Brett M. Biggs

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

Hey, Michael. It's Brett. Yeah, I think that algorithm we talked about last year, there were a couple of things we mentioned. One was at the time also we didn't see a stimulus coming or didn't anticipate a stimulus coming which ended up coming. But I would look at that more as a mid- to long-term algorithm which I think is the way we portrayed that when we discussed it. Certainly, right now we're seeing inflation in areas and some of that's demand driven, some of that's supply driven. Over time, things will likely work themselves out. But the context of how we think about the longer-term growth of Walmart has not changed.

Michael Lasser

Analyst, UBS Securities LLC

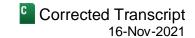
Okay. And my follow-up is for Doug. Walmart's built a lot of new capabilities in the last couple of years like growing digital ad business, a driver delivery network, an online membership program. And these new muscles are driving significant growth, but they're coming off a relatively low base. So, does Walmart need to make any substantive changes culturally, operationally in how it deals with stakeholders like consumers or vendors, or to influence the ability to further gain scale in these areas? Or are they operating at the level that you would expect at this point?

C. Douglas McMillon

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

Thanks, Michael. That's a good question. The thing that comes to mind is the change that has to happen and has happened to an extent and continues now related to working in a more digital fashion. We use a phrase here that's called four-in-a-box which is an agile way of working with customer, product, design, technology, engineering, all around the table designing omnichannel outcomes for customers and members. Historically, if you look back years ago, the company would have operated in specialized silos, merchandising operations, finance, logistics, et cetera. And the teams learned in recent years and is still learning how to move faster, again, with the end in mind, design with that outcome. And that enables us to put technology to work in a way that is truly omnichannel, not siloed. Customers and members expect that. We've got unique opportunities to deliver that. But the change inside the company has to happen to enable it.

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Michael Lasser

Analyst, UBS Securities LLC

Thank you.

Operator: Our next question is from the line of Steph Wissink with Jefferies. Please proceed with your question.

Stephanie Wissink

Analyst, Jefferies LLC

Thank you. Good morning, everyone. I wanted to give you guys a chance to talk a little bit more about how you activated your supply network and also your hiring tactics for seasonal labor. A couple of the numbers that struck us in the release were the inventory level and the labor count. If you could, just talk a little bit about that 11% inventory increase, if there's any price in there that we need to be conscious of. And then 200,000 hires across, I think you said stores and supply chain, but maybe give us a sense of how that balance, where that labor resides relative to how your business has shifted more omnichannel. Thank you.

C. Douglas McMillon

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

This is Doug. I think for that answer we need to get John, Judith and Kath to respond because the supply chain and hiring challenges are around the world. John, you want to kick it off.

John R. Furner

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

Yeah. Love to. Good morning. First, we wanted to make sure that we were positioned well for customers. It's an important time of year in general merchandise and in the food business as our customers prepare to celebrate holidays all across the country. And we took a lot of steps early in the year to try to get ahead of what we thought could be some congestion and some other supply chain pressures that we've been facing throughout the year.

Some of the things that helped us in the guarter, Brett mentioned a couple of things like chartering vessels, ensuring that we were forecasting appropriately. And then managing the labor across each and every piece of the supply chain has been paramount to being able to deliver an increase in inventory, as you noted, of over 11%.

Certainly, there were pressures all along the way, but I would just compliment the teams at Walmart that operate the supply chain and not only general merchandise but our food networks. Both networks have been running extremely well. There's a lot of volume going to the networks and the teams have been very innovative in approaches to solving these problems. The supply chain is very complex, and there have been a number of places where we've seen acceleration, that would be in throughput, inbound from our vendors and then outbound to our stores and fulfillment centers has been extremely strong.

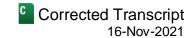
Judith McKenna

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

From a supply chain perspective for International, clearly each of our markets is in a slightly different position but many of the actions that John's described apply globally around the world. But I take somewhere like Mexico. That market is about 93% domestically sourced, so those pressures are slightly different and depending on the categories. We spent the last couple of years expanding some of our supply chain capabilities, and that's really stood us in good stead. And then you've seen us ramping up our hiring in places like Canada, pre-the holiday

season as well. That's quite normal for us and we've had no issues with being able to do that. We're doing some

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good work, [ph] taking on (29:05) some of the chartering of the vessels that the US is doing, and I think this is where our scaling capabilities really come into play. And from an inventory perspective, we're up about 10% year-on-year but that's ex-divestitures. Actually, so that's [ph] including divestitures, (29:20) ex-divestitures, it's even higher than that. And for the first time I tell you that's a good thing because it actually positions us well as we're going into the peak of the holiday season.

Kathryn J. McLay

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

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Yeah, I would only just add on to say Sam's obviously gets to leverage the Walmart supply chain. That's to our advantage. And we also worked deliberately this year to pull forward inventory. So, we landed Halloween earlier. We landed Christmas earlier. So, everything's just shifted up a little bit which has put us in a good trading position.

Operator: All right. Thank you. Our next question is from the line of Karen Short with Barclays. Please proceed with your question.

Karen Short

Analyst, Barclays Capital, Inc.

Hi. Thanks very much. I just wanted to just ask a short-term question. So, looking at your guidance for 4Q, wondering if you could give some puts and takes on gross margin and SG&A. I appreciate there are a lot of moving parts on the wage front, but the implied 4Q flow through on EBIT is significantly higher in 4Q than it was in 3Q. So that's my first question.

Brett M. Biggs
Chief Financial Officer & Executive Vice President, Walmart, Inc.

A

Yeah. Karen, this is Brett. I think probably you answered your question a little bit. There are puts and takes as we look at the quarters. There has been for the last eight or nine quarters, and there is really for every quarter. And as we look at all the potential things that we see in the supply chain, as we see in the labor market, as we see in pricing, the EPS guidance that we gave is kind of an amalgamation of all of those things.

C. Douglas McMillon

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

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A bit of a different mix in Q4, too, of what we'll sell.

Brett M. Biggs

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

Yeah.

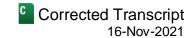
Operator: Thank you. Our next question is from the line of Peter Benedict with Baird. Please proceed with your question.

Peter Benedict

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

How are you guys? Good morning. I kind of have a question just around Walmart's positioning during periods of inflation and recognizing that this is a level of inflation we haven't seen for a very long time. Can you just, Doug, maybe take us through how the business historically at least has responded, how customers have behaved? Are

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there trip changes? Is there trade down? Or do you get access to new customers? Just curious your kind of perspective in the event that this inflationary environment persists for longer.

C. Douglas McMillon

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

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Yeah. Sure. Hi, Peter. I was just thinking about Judith because she was reminding us this week just how much inflation we've experienced inside Walmart around the world over time. We haven't seen this kind of inflation in the US for quite some time, but we have operated in markets where we've seen this basically forever and even more extreme, so that experience is helpful. And we do start with wanting to keep prices low. The purpose of the company is to save people money and help them live a better life, and we get excited about trying to do that. And the company is kind of hedged well, if you think about it, with an inflationary environment. There are things that come along with that. And in a deflationary environment, we can lead down, and we're a low-cost operator and we can take advantage of both situations.

So, in this case, our cost inflation is higher than our retail inflation, and that's what we would want, but we've got lots of flexibility as we monitor price gaps to decide what we do with general merchandise, what we do with apparel, for example, what we want to do with beef with the inflation that's happening there. And it becomes a mix-management exercise with us trying to manage serving the customer and member well, managing the bottom line. We would care a little less about how the gross margin and SG&A balance out as we would with the what the net looks like. And so, we're managing in that fashion, and that's what you can expect us to do going forward.

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

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC



Hey, everyone. Good morning. So, I guess I'll ask a multi-parter, since maybe we're only getting one. First, on gross margin the down 12 and the mention of the supply chain pressure. How should we think about it being maybe a peak point [ph] in pain (33:35) in terms of supply chain cost and how this leads into next year? And I think someone, I don't know if it was Kath or Judith, mentioned the buying forward of inventory. Is this inventory just owned further upstream in the supply chain? Or it's already in your DCs and stores that can be deployed?

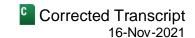
John R. Furner



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

Hey, Simeon. It's John. Let me take the first part of the question and then we'll handle the second part together. As far as the gross margin, we start all these conversations with what's the right value for customers given our position in the Marketplace. And we've been pleased with the results in terms of price gaps over the last 18 months. We're in a better position than we were before the pandemic, and we intend to keep our price gaps that way. Now, as Doug mentioned, our cost inflation is definitely higher than retail, so we will hold on moving any retail as late as possible.

And what you saw during the quarter in the third quarter, more specifically in gross margin were costs that came through in terms of supply chain. That would be everything from our domestic supply chains, labor, international supply chains as well. And then we have benefits of lower mark-downs and higher sell-throughs. That would include back-to-school. We had a very good back-to-school season. Our Halloween sell-through both in food and general merchandise were very strong. And we see customers who are celebrating. We're pleased with our position as we go into Thanksgiving.



I've been out in stores around the country and our feature mix looks much better than a year ago. We definitely have a holiday feel. Last year, we were pretty reliant on things like snacks and beverages to fill space, and we were having inventory shortages. So, Simeon, I feel really good about the positioning going into the holiday season. We're proud of the 11.5% I mentioned just a moment ago. But many ladies and gentlemen all the over the country have worked very hard to make that number come to reality, including managing each piece which is both offshore and domestically. I think that the big advantage that Walmart has in times like this is about two-thirds of what we source is sourced from the United States here in the country, so we've got a lot of flexibility in terms of being able to balance this out.

Kathryn J. McLay

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

I'll probably just add, it's Kath here, to say it's a little bit member sentiment as well as supply chain. We saw last year and again this year the member sentiment of wanting to participate in seasonal events early. And so, we took advantage of that and brought in the inventory earlier. We bought up 100% in Halloween costumes, we brought them in earlier, we set them, and we sold through them. I think Christmas we've already had healthy sell-through. The rest of the inventory is in country and on its way to the Club. So, I think that's what we're seeing both in the member sentiment and us trying to pull forward from a supply chain perspective to make sure we can see it and we've got access to it.

Judith McKenna

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

I would maybe just add to that, it's Judith, that we are prioritizing flow around the world and have been doing for some time. So those products which we know that customers and members need most, making sure that they've got places on the vessels when it's the International supply chain to bring them in. So, it's in addition to people wanting to buy earlier, we've also been really thoughtful about how that product is coming in as well.

C. Douglas McMillon

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

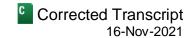
One of the most important things that happened quite a few months ago is we all kind of held hands and decided to be aggressive. So, the seasonal businesses that we're driving now, we made a call on that maybe in some cases a year ago. And I think that helped us in terms of quantities, getting them through, getting them through earlier and I think it's going to play out that way. I think it's going to be really strong. As it relates to whether it's peak or not, Simeon, there are variables like what happens with the virus, is the market going to continue opening up and people will consume services, travel, and all those kinds of things. And what does that mean to goods?

So, there's a demand side of this as well as a supply side of it, and I don't know that any of us could call exactly where the peak's going to be. But it doesn't really matter to us. We're going to manage through it regardless of what happens, and when we get an opportunity to take roll-backs we're out there asking suppliers even now do any of you want to get aggressive and swim upstream and take prices down while prices are going up to gain share. And we've got so many suppliers to work with and choose from that you find people in some categories that can do things. And as the months progress, we expect to find more of them.

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



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Kate McShane

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning. Thanks for taking our question. It was mentioned in the prepared comments in the presentation about the impact of stimulus in Q3. and I was wondering if there was any way in which you can quantify how much stimulus had an impact in Q3 versus Q2 realizing, of course, that we're getting further away from initial stimulus and what you're thinking of contribution of stimulus could look like in Q4.

Brett M. Biggs

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

Yeah. Kate, this is Brett. It gets pretty challenging to try to quantify that impact with some of the other impacts that we're seeing as well. Obviously, there are some parts of the stimulus that wound down in Q3, things like childcare credits that kept going through Q3, but demand is really strong. Unit demand is strong. You go in our stores, they're crowded. So, we continue to see good demand. And I think as you – kind of as your question stated almost, as we get further and further away from stimulus, I think it makes us feel better and better about the demand for what we're doing.

John R. Furner

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

And, Kate, specifically in the US, good morning, it's John, by the way. Specifically in the US, we certainly see a consumer that has a strong balance sheet. We see spending levels higher. We see demand that's higher. Traffic being up 5.7% in the quarter is an encouraging sign. And then having categories like apparel lead the business which is discretionary. Our apparel team has done a great job positioning us going into the back half of the year with new technology, new product. Having apparel lead is certainly encouraging. And then also we're really proceed of the results in food with two-year share gains and units accelerating retail gains, I think gives us an indication of how the consumer is feeling and how they're going to be spending the rest of the year.

C. Douglas McMillon

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

It seems like the most pronounced thing we saw would be in hiring. Back when the stimulus dollars started to go away. the hiring situation changed faster. We saw people come back. In a matter of weeks, we were back to being staffed.

Brett M. Biggs

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

Yeah, that's right, Doug, [ph] more (40:25) pronounced than on the demand side.

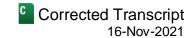
C. Douglas McMillon

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

Yes, it certainly was, and we certainly felt the impact of that early in the year when the delta variant began. And then in the last quarter or so, we've added close to 200,000 people in the workforce. We're really excited to welcome the 200,000 new associates to the company. About 25% those are in the supply chain, and the other 75% are stores and our other areas. But that's been done to meet demand. And again, we're excited about our position when it comes to people, product and our pricing.

Operator: Our next question is from the line of Bob Drbul with Guggenheim Securities. Please proceed with your question.

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Robert Drbul

Analyst, Guggenheim Securities LLC

Hi. Two questions from me. Good morning. I guess the first one is can you share a little perspective on the Walmart+ membership program and what you've learned so far and how you feel about it. And the second question is, can you talk about, I think, the 21 million items you added in the Marketplace. I know that's been a big focus for you guys, so would just love to hear sort of where you think you are at this point. Thanks.

Brett M. Biggs

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

Sure, Bob. Good morning. First, really excited about the Walmart+ program. We launched just over a year ago with some really core values for the customer which include unlimited delivery primarily from stores but that doesn't include eCommerce. The program also offers fuel discounts and Scan & Go. And then most recently, we offered early access to customers, Plus members who are shopping at our holiday events. So, our Plus members now have about a four-hour window to be able to access product ahead of the market. And certainly, seeing great results on that. Plus is a really important part of our growth strategy over the long-term. We know once a member – once a customer becomes a member, and typically those are members who are joining who are already pick-up customers, we know their spend increases and our first-place wallet share grows. So, looking forward to the progress that we'll be able to make over that in time. And the second part of your question could you repeat?

Robert Drbul

Analyst, Guggenheim Securities LLC

Just some perspective on the eCommerce Marketplace, the 21 million new items. I know that's been a focus, so just where you guys think you are at this point.

Brett M. Biggs

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

Yeah. We're currently about 160 million items available, so 21 million growth in the quarter is a really nice gain. And we certainly see a high demand for Marketplace sellers. And one of the services that we're excited about is Walmart Fulfillment Services. We can scale that business just about as quickly as we'll be able to add capacity. So, we've got a lot of great plans in the supply chain. We've talked about supply chain a number of times this year, but we've got a lot of innovation and investments in the supply chain that we're very excited about to add capacity for the overall network. But this certainly will include and support our Marketplace sellers and have a great seller value proposition as we look forward.

Operator: Our next question is from the line of Ben Bienvenu with Stephens. Please proceed with your question.

Ben Bienvenu

Analyst, Stephens, Inc.

Hey. Thanks. Good morning. I want to ask a sort of two-part question related to, Brett, your commentary around ROIC and some of the team's broader commentary around wage investment relative to inflation. You're at one of the strongest ROIC metrics that you've seen in some time. You're talking about, it sounds like, being pretty competitively positioned relative to hiring and being able to staff up back to full staffing as the stimulus fell off. You've also been investing in wages. I'm curious. With all of those variables in place and inflationary backdrop, how do you feel about your level of investment around wages and into the organization? And do you think that we're in an environment where you can deliver against the productivity loop that we were all so focused on at the start of this year?

Brett M. Biggs

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

Yeah. Hey, Ben. How are you doing? Yeah, I'll go back to really what we talked about in February which came up a little bit on a question earlier. I still feel really good about the long-term algorithms, mid- to long-term algorithms, that we discussed in February about being able to grow operating income faster than sales as a company going forward and that would pertain to, I think, shareholders over time being pleased with the direction of ROI. We have some capital to invest, and John's talked a lot about that, particularly on the US side on supply chain. And we're going to do that because we think it's going to help us long term on both the topline and bottom line. But I am pleased with where we are from an ROI standpoint. We're focused on it, and I think over time we should continue to grow as a company.

C. Douglas McMillon

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

One of the things we mentioned in February was the importance of automation, and we'll be talking more about that in the future. But if you just go back and review what we said there, we've got opportunities in distribution centers, fulfillment centers, around the world to deploy new technology that will help us with productivity. And that'll take some capital investment, but if you look at what it delivers on the other side for customers and members as well as from a productivity point of view, we continue to be excited about that.

Brett M. Biggs

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

And the last thing I would add, Ben, just certainly the focus on topline Doug mentioned a few minutes ago, but we made decisions about over a year ago to certainly be aggressive with inventory positioning. And the team is really focused on topline growth. One of the fun things in retail is adding up the score every day, and that starts with your revenue. And with revenue growth, we are in a position where we can leverage our fixed costs. And then as you've heard all throughout the call this morning, in the middle we can manage. And we've got a team who are great at managing the middle. And the middle would include things like costs, gross margins, wages, the other factors in the middle. But overall, we're happy with the position and the ability to manage it. And the last thing I'd say is we're excited about the investments in wages and associates. This last round positively affected about 565,000 people, and that's a really large number, 565,000 people got a raise, and we're proud to be able to be in the position to do that.

Operator: Our next question is from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Chuck Grom

Analyst, Gordon Haskett Research Advisors

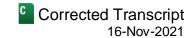
Okay. Thank you. Great quarter. Brett, I was wondering if you could just unpack some of the moving parts on the third quarter US gross margin compression of 12 basis points and, I guess, looking ahead how you see that line item playing out in the fourth quarter.

Brett M. Biggs

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

Yeah. Thanks, Chuck. We didn't give guidance on any specific lines on Q4. But I think it demonstrates again what we've said for many years, just all the levers that we have to pull as a company to be able to – for a P&L to work at the same time that we're serving customers in the way that we want to. And really, Q3 would be no different

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from the standpoint of levers moving one way or the other. Certainly, you had supply chain cost pressures [ph] just to make input (47:14) cost pressures, but then when you get the demand that we're having, it leads to lower markdowns. Fuel was a pressure in Q3 which sometimes it's a positive, sometimes it's a negative.

Feel really good about our advertising business, John, and the growth that we're seeing in the US but also globally. So, it's all these things that come together. And as a management team, cost side and margin side, it's up to us to manage those pieces in a way that gets to the results that we had in Q3 and the results that we've guided for in Q4. So, we've managed through a lot of different environments over the last eight or nine quarters in particular and feel good about this team's ability to continue to do it.

Operator: Our next question comes from the line of Edward Yruma with KeyBanc, please proceed with your question.

Edward Yruma

Analyst, KeyBanc Capital Markets, Inc.

Hey, guys. Thanks for taking the question. A quick two-parter for me. I guess first, you guys have added a lot of capabilities and use of AI. Really interested in understanding how it's maybe changed, how you manage the business. Have you been able to get faster? And then as a follow-up, on Marketplace, nice growth in assortment. It does seem like a lot of Marketplace participants are selling items that are out-of-stock in the core Walmart business. I guess how is your view on kind of Marketplace in terms of enhancing assortment versus offering consumers products that maybe sold out at Walmart? Thank you.

John R. Furner

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

So, let me take – good morning, Edward. This is John. A couple of things on your first question, [ph] talking about (48:46) capabilities. First, the team has really changed the way they work over the last couple of years. We mentioned a few minutes ago a more digital way of working which we call in the business four-in-the-box. And quite simply, we look for customer problems, associate problems, friction in the environment, and then we assemble a team of people which would include someone representing the customer, the business, product, technology and design. And these groups work through each of the problems and create digital products to take the friction out.

Along the way, the real benefit is the data that's generated from these products. One example is we're managing our backrooms of Supercenters and [ph] neighborhood (49:31) markets around the country using computer vision and augmented reality to not only know what's in the backroom but what can be moved to the floor. And we use AR, augmented reality, as a way for associates to know how to direct work. And from that, we generate literally billions of pieces of data every week, and it's helping us with overall inventory management. And I think our instock positions reflect that work as an example.

Second, on the Marketplace, we've taken more of an open approach on the Marketplace, and we're ensuring that each of our search and recall algorithms are working on behalf of the customer. What's really important in retail is knowing your customer, understanding the customer's intent and then taking into catalog whether it's 1P or 3P, and matching the items that they are looking for. And then it's up to the team here to execute it. We've got a really clear customer value index that we think about each and every day online, and we measure ourselves to that. So, we're really centered on, as we've said a couple times this morning, really centered on revenue growth, focused on the customer, and then we'll work through the other pressures as Brett mentioned, like we have the last eight or nine quarters.

C. Douglas McMillon

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

We're using ML and Al to do a number of different things. We used it to help to adjust to the pandemic and used the stores as fulfillment hubs. We use it for predictive baskets, marked substitutions, our in-stock assistant, it's Al empowered. And this modernization that we've been talking about with you guys in previous meetings is continuing, which unlocks more capability to use that data. We've moved 153 petabytes of data to the cloud so far, and we've got room to grow there, and we can put data and machines to work in ways in this company that we've not yet done, but we are making progress.

Operator: Thank you. [Operator Instructions] Our next question is from the line of Robby Ohmes with Bank of America.

Robert F. Ohmes

Analyst, BofA Securities, Inc.

Good morning, guys. I'm going to break the rule on the one question, just to let you know ahead of time. Doug, I was hoping – can you frame the digital advertising opportunity for us a little bit, both maybe US and International? You guys, I think, have mentioned it quite a bit on this call. How big is it now? How big can it get, areas you're developing? And then just my add-on question is just I don't think you guys spoke about the gas prices rising, and maybe you remind us. Maybe, John, you can remind us, the gas price impact on the customer outlook for Walmart with it going up so much.

C. Douglas McMillon

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

Yeah, Robby, I would expect to you break that rule. As it relates to digital advertising, we are really excited about it. Obviously, we're coming off a smaller base than some others. We've shared that the two-year stacks 240% in the US, at some point we may share a number with you. We're obviously talking about that. The thing I'm excited about is it's happening everywhere. Judith is driving an advertising-income business around the world. And this flywheel that we showed you guys in February is coming to life across markets in a way that generates a different business model that will change the company in the long term. And it's happening, and we're excited about the fact we've got traction in a number of different areas.

Gas prices are a concern. They're a concern not just in this country, but everywhere. They're up dramatically versus a year ago. And the customers had money, and at some point, that's going to come to an end. Hopefully, that's a gradual process, and hopefully gas prices come down. And we sell a lot of fuel. In both Walmart US and Sam's, we're trying to help keep those prices down.

John R. Furner

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

I'd just pick up a couple of things, Robby, on ads. Excited about the momentum. I like the way the team has positioned the business and call it Walmart Connect. It connects buyers, sellers and customers on the platform. And that's really important that everything we do is centered around the customer. And in the last quarter we added a new Chief Revenue Officer Seth Dallaire. We're excited to have Seth on board and looking forward to the impact he'll be able to make in the ads business. And as Doug said on fuel, certainly we're watching the pricing in fuel. Where we can offer a value, we will, and we do. But we know that Americans spend a large percentage of their income on food and energy, and so with pressure on energy prices then certainly it's up to us and the team to do everything we can to keep prices low and to fight inflation. And the team's doing a nice job of that.

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Judith McKenna

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

It's Judith. Maybe just on our [ph] tech for (54:12) International, one of the other things to add is the way that we're sharing technology but also capabilities around the world. As that flywheel builds out, using the capabilities that we're building in different markets, to support markets earlier in their journey is really important. So, for example, the Flipkart ad tech platform, which is developed and really quite mature, we're deploying that in Chile, for example, whereas Walmart Connect, that program is deploying in Mexico and Canada. So, another great one of those areas where not only is it benefiting all of the markets pretty much around the world, it's also ultimately being built off shared capabilities.

Operator: Thank you. Our next question is from the line of Paul Lejuez with Citigroup. Please proceed with your question.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Hey, thanks, guys. Could you talk about cost inflation on the grocery side of the business versus general merchandise? What are you seeing on each? And how do you think that compares to what competitors might be seeing and what you expect them to do in terms of passing it through to the consumer? And how does that influence your decision about pricing? Thanks.

John R. Furner

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

Good morning, Paul. This is John. First was, we said earlier, our unit growth in grocery is growing faster than dollars, and that's a position we'd like to stay in as long as we possibly can. We want to keep prices low for customers all across the business, and we'll be the last to go up. So, we're happy with our price positioning. We see gaps that are wider now than they were before the pandemic began, and we intend to maintain that position. As far as the mix goes, it's relatively even across the business, so there aren't areas, with probably the exception of the beef category, that really stand out from grocery to general merchandise. But we've got solid growth in general merchandise as well. Leading in the business is apparel. Our health and wellness business has been strong.

So, the Supercenter and the overall business has an ability to mix that's quite helpful, and in the last quarter, part of the margin of compression, we were down about 12 basis points, was benefited by mix. It was benefited by higher sell-through and then was also benefited by lower markdowns as a result of those sell-throughs. And then we had supply chain costs that came through. So, the team at Walmart have a broad portfolio of categories and a broad portfolio of levers that they can use to keep prices low for customers.

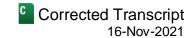
Operator: Thank you. Our next question is from the line of Joe Feldman from Telsey Advisory Group. Please proceed with your question.

Joseph Isaac Feldman

Analyst, Telsey Advisory Group LLC

Yeah. Hey, guys. Thanks for taking my question. I want to go back to something that you guys mentioned earlier in the call. I think, Doug, when you were in your prepared remarks, you mentioned seeing the pandemic causing shifts in shopping behavior which we all talked about a lot. And then a little later, I think you guys talked about seeing some of those behaviors shifting away from what we saw during the pandemic. And I was hoping you

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could share some thoughts on basically what you're seeing and what you expect to stay with us for the long term in terms of some of these behavior changes in terms of shopping.

C. Douglas McMillon

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

A

I think pick-up and delivery around the world will grow and the step change that occurred will stay and then grow from there probably at a lower rate. That's what we're seeing here. But the store traffic's the biggest issue. When the pandemic enabled it, people came back to stores. And I think that they like stores. They want to have that experience. They enjoy seeing merchandise, being around each other, and that's why omnichannel makes so much sense. So grateful for that. There are other things like telehealth that will persist forever. The goods-versus-services trade-off that happened during the lockdowns and during the heavier pandemic period were definitely a big deal. We'll see how that plays out over time. People were eating at home. I think they've enjoyed that and they're going to do more of that, and that gives us an opportunity across all of our formats around the world. Is there anything any of you would add to that? I think we covered it.

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

C. Douglas McMillon

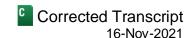
President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. I'll just wrap up by saying we appreciate your attention on Walmart and hopefully what you can see is that the business is changing. We can sell customers and members things in a variety of ways. We can make money doing it. The business model's changing. The digital transformation's underway. This is a different company than it was, and we've got a lot of runway in front of us. We're looking now at our input metrics. We're not just enjoying the benefits of some of these tailwinds and feeling like we're suddenly a company that's arrived. We're paying attention to Net Promoter Scores.

We're working on the things underneath that will enable us to continue to grow regardless of what the environment's like. There'll be a point in time some point in the future where you guys will be asking us about deflation and you'll be asking us about how we're going to grow share, and we're focused on growing share today and in that environment. We run the company for the long term, manage it for the short term, and really proud of what the team's doing to make that happen and grateful to our associates. Have a great day.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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