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Walmart, Inc. (WMT)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Walmart's Fiscal Year 2023 Fourth Quarter Earnings Call. At this time all participants are in 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 turn the conference over to Steph Wissink, Senior Vice President of Investor Relations. Steph, you may now begin.

Stephanie Wissink

Senior Vice President & Head-Investor Relations, Walmart, Inc.

Thank you, and welcome to our Q4 fiscal 2023 earnings conference call. Joining me today from Walmart's home office in Bentonville are CEO, Doug McMillon; and CFO, John David Rainey.

We'll follow a similar format to prior calls where Doug and John David will share their thoughts on the quarter, year and year ahead. Following we'll open the call to your questions. For the Q&A portion, we've asked our segment CEOs to join, including John Furner from Walmart US, Judith McKenna from Walmart International and Kath McLay from Sam's Club.

Today's call is being recorded and management may make 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.

We are now ready to begin. Doug, over to you.

C. Douglas McMillon

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

Good morning, everyone, and thanks for joining us. We're excited about our momentum. The team delivered a strong finish to the year, and as our results in the last two quarters show, we acted quickly and aggressively to address the inventory and cost challenges we faced last year. We built momentum in the third quarter and that continues. We're well positioned to start this fiscal year.

For fiscal 2023, we added $38 billion in sales globally and we crossed $600 billion in revenue for the first time in our company's history. Globally, eCommerce now represents more than $80 billion in sales and over 13% of our total sales. Walmart US grew sales by more than $27 billion. International had another strong year with sales and profit growth of about 9%, excluding divestitures, restructuring and currency. And Sam's Club US grew sales by more than $10 billion as we delivered double-digit comp growth for the third consecutive year with membership count at a record high and strong growth in membership income. All three segments had momentum. We're grateful to John, Judith, Kath and their teams for how they're leading these businesses and showing results.

The holidays were strong for us from Thanksgiving to Christmas to Diwali to Singles Day, our teams were ready. We had aggressive plans and we delivered. Around the world the teams leaned into our food and consumables strength, taking share in places like the US and Canada and delivered a good experience for customers and members in general merchandise. They drove sales and landed the seasons in a very good inventory position when it was all said and done. We ended the quarter with inventory about flat to last year which is better than we anticipated and even better when you consider how inflation lifts that number. And they did it while improving in-stock levels. I'm impressed with how they brought it all together and want to highlight our store, club and supply chain associates who handled a lot of volume to make this happen.

As we navigated the short term, we also advanced our strategic priorities. Big picture our strategy is simple, it's to bring our purpose to life for those we have the privilege to serve. We're a people-led tech-powered omni-channel retailer that's dedicated to helping people save money and live a better life. That's who we are. Why do we exist? It's to help people save money and live better. How do we do it? By being people-led with clear values, unique culture and tech-powered. We're a people business focused on customers, members and associates. We're constantly adjusting to put the right combination of wages, benefits and education in place so that our people can build lifelong careers and achieve their full potential. You can start your career assembling bicycles and end up leading all of our US stores. You can start as a cashier and become a truck driver. You can start unloading trucks in a DC and grow to oversee an automated system moving freight through that DC. We provide opportunity even as we continue to innovate through technology and prepare our business and workforce for the future.

One of the things I have always appreciated about this company is that it's naturally hedged. If customers want more of something and less of something else, we shift our inventory. If the economy is strong, our customers have more money and that's great. If things are tougher, they come to us for value. With today's inflation we're continuing to see that happen. We're gaining share across income cohorts, including at the higher end which made up nearly half of the gains we saw in the US again this quarter. And we're also capturing a greater share of wallet at Sam's Club in the US with both mid and higher income shoppers. Our goal is for the experience they're having in our stores and clubs combined with our current capabilities for pickup, delivery and membership to result in them choosing us even as inflation eventually subsides.

As we plan this new fiscal year, we've anticipated stubborn inflation in dry grocery and consumables in particular which will have some mix impact. We'll stay focused on general merchandise and earn sales in those categories to offset that impact as much as possible. When we think about our business today compared to what it was during prior economic downturns, we now have a more compelling offer: a true omni-channel experience that makes us optimistic that more higher income families will continue shopping with us across categories because we have pickup, delivery and membership.

And we're improving in categories like apparel and home. Our recently remodeled US stores have a focus in those areas and the early response from customers is promising. We're also improving our eCommerce assortment and presentation in those categories. We've always been known for great prices and because of the work we've done around pickup and delivery from stores, clubs and expanded assortment through FCs we're increasingly known for the convenience we offer. In fact, our US customer feedback showed strength in price and convenience. Our reputation for price remains strong and our score for convenience has risen to nearly the same level. Our Walmart+ members recognize our strength for convenience even more than the average customer.

As it relates to our customer or member value proposition, we continue to have the strength with respect to value while we're expanding choice by growing our assortment on Walmart.com and we're improving as it relates to experience. Being an at-scale omni-channel retailer creates unique opportunities to innovate in the area of experience that includes products like Scan & Go at Sam's Club and a newer in-house conversational AI platform enabling a voice and chat capability being used by more than 50 million customers and an average of 1 million associates across the US, Mexico, Canada and Chile. We're driving a lot of change inside our company. We know where to tap the brakes on cost and inventory, but our focus is more on the gas pedal with respect to our strategic improvements related to assortment growth and our customer and member experience. We'll keep shaping the business model by scaling our newer, mutually reinforcing businesses in areas like Marketplace, Fulfillment Services and advertising.

It's exciting to see our global advertising business grow to $2.7 billion for the year we just completed. That's nearly 30% growth. Over the last three years, while our front-line focus was on navigating the pandemic and inflation, we still launched and started scaling new complementary businesses using the technology and expertise we've developed over time. You can see this in some of our recent announcements. The partnership we announced with Salesforce to help scale local fulfillment and delivery solutions for customers on their eCommerce platform is a good example; or our new Walmart Business eCommerce site is another where we're helping small and medium sized businesses and nonprofits save money and spend less on purchasing the items they need every day.

Our fast-growing businesses in India, Flipkart and PhonePe announced a full separation which allow both companies to focus on their own growth paths independently and help unlock value for shareholders. Flipkart has continued to strengthen its market leadership position in eCommerce and is entering this year with good momentum. PhonePe also announced the closing in January of the initial tranche of a fundraise that values the business at $12 billion pre-money. This is more than double the previous valuation just two years ago. And our Sam's Club US team announced expansion plans that will have us opening more than 30 new clubs across the country over the next several years, in addition to a multiyear plan to invest in and modernize our supply chain especially in the US.

I'll wrap up my comments today by saying thank you to our associates. I'm grateful for how they continue to step up for our customers and members and I'm impressed by their creativity and resilience. We've worked through a lot of the operational stress in our business from last year and we made progress on strategic initiatives as we did it. And we're doing it in a way that's uniquely Walmart.

John David, over to you.

John David Rainey

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

Thanks, Doug. I'd like to start by thanking our customers, associates and partners for helping us deliver a strong quarter to wrap up the year. We're pleased with how we finished the year. Our team demonstrated our agility and responsiveness to overcome the operational challenges from supply chain disruptions, excess inventory and the shift in our merchandise mix.

For the full year, enterprise sales on a constant currency basis grew more than 7% and we surpassed $600 billion in annual sales for the first time. Adjusted EPS declined 2.6% for the year. Our performance in Q4 was better than our expectations, due to sales upside and good expense leverage. Constant currency sales grew 8%, with strength across all segments including strong performance throughout the holiday season. Walmart US comps increased 8.3%, including 17% growth in eCommerce with a combination of pricing, due in part to inflation, and share gains. Sam's Club US delivered its 12th consecutive quarter of double-digit comps with growth of 12.6%, excluding fuel and tobacco. And constant currency sales in Walmart International increased 5.5%, led by Walmex.

As I discuss our profitability, it's important to note that reorganization and restructuring charges within the International segment affect year-over-year comparisons, so my comments regarding Q4 results will focus on the business excluding adjusted items. Gross margins were down 83 basis points, largely resulting from additional markdowns taken to address carryover inventory balances, mix headwinds and underlying inflation in our cost structure. With strong sales growth in the quarter, we levered SG&A expenses by 89 basis points. Taking all this together, adjusted operating income grew nearly 7%.

Adjusted EPS of $1.71 was better than we expected going into the quarter. GAAP EPS was $2.32. The difference between adjusted and GAAP EPS reflects a $1.16 benefit from unrealized gains on equity investments, partially offset by a $0.55 charge related to business reorganization and restructuring in International.

Inventory at quarter-end was relatively flat to last year. This includes a nearly 3% decrease from Walmart US. I'm pleased with how our teams responded to the challenge early in the year to aggressively rebalance inventory for the current environment. And it sets us up in a really good position going into the year.

Let me briefly reference key highlights for Q4 by segment. For Walmart US, comp sales were strong throughout the quarter. And December was the largest sales month in Walmart US history. This was led by strength in food sales, which increased high teens, partially offset by a mid-single-digit decline in general merchandise sales, with softness in toys, electronics, home and apparel.

The effects of product mix shifts have negatively impacted our margins. Over the last year, grocery and health and wellness sales, which have a lower margin than general merchandise, have increased by 330 basis points as a portion of our mix. We continue to see strong share gains in grocery, with nearly half coming from higher income households, and private brand penetration increased over 160 basis points as customers prioritize value. Inflation remained high, up mid-teens in food categories, which was similar to Q3 levels.

eCommerce sales were led by continued strong growth in store fulfilled Pickup & Delivery in Q4. Over the last two years, store fulfilled delivery sales have nearly tripled and we're now doing over $1 billion a month, which gives you an indication of why we're so excited about the progress here. Advertising sales were also strong this quarter, up 41%. Higher sales and lower COVID costs contributed to SG&A expense leverage, which offset gross profit pressure, resulting in operating income growth of 3.8%. In International, strong sales trends continued with growth of 5.5% on a constant currency basis, led by double-digit growth in Walmex and China.

Currency negatively affected reported sales results by about $900 million or an approximate 340 basis point headwind to growth. Q4 sales benefited from successful festive events across our markets. Year-over-year comparisons were negatively impacted by the timing shift of Flipkart's Big Billion Days event to Q3 this year versus Q4 last year.

Looking at the second half of the year in total, International sales grew more than 9% in constant currency. eCommerce sales were strong with penetration at 21%, with China leading the way at 48% penetration for the quarter. Walmex had another great quarter, with sales strength in Bodega stores, Sam's Clubs and 14% growth in eCommerce. Segment adjusted operating income grew faster than sales, up nearly 17% in constant currency, helped by effective cost management across markets.

In India, Flipkart continued its strong momentum through Diwali and other seasonal events. We are particularly pleased to see Flipkart's positive contribution margin expanding. PhonePe's recent valuation that Doug talked about was supported by annualized TPV reaching more than $950 billion, about 50% higher than just one year ago, while also exceeding more than 4 billion monthly transactions.

Turning to Sam's Club, our strong momentum continued with comps up 12.6% in Q4 and up 23.4% on a two-year stack. The segment delivered another quarter of record member counts and membership income growth was above 7%. In addition to solid increases in both transaction and ticket, Sam's eCommerce sales were up 21% year-over-year, with contributions from both curbside and ship to home. Operating income was pressured in the quarter by elevated markdowns lapping higher co-branded credit card income last year and an inflation-related LIFO charge of $14 million. With the strong trends at Sam's over the past several years, we're excited to expand our physical footprint through a multiyear investment in new clubs and supply chain optimization.

Turning to guidance, as we sit here today, we find ourselves in a similar position to each of the last three years, where there is a great deal of uncertainty looking out over the balance of the year. While the supply chain issues have largely abated, prices are still high and there is considerable pressure on the consumer. Attempting to predict with precision the swings in macroeconomic conditions and their effect on consumer behavior is challenging. As such, our guidance reflects a cautious outlook on the macro environment, but, at the same time, our excitement about our recent results, momentum in all segments and progress on our strategy, both for this year and the years that follow. We are positioned well and convicted about our plan.

In FY 2024, we expect operating income growth to outpace sales growth. Given the persistence of high prices and the potential for further macro pressures, we're taking a cautious outlook for the year. We are guiding enterprise sales growth of 2.5% to 3% in constant currency and operating income growth of approximately 3%. This guidance assumes product mix pressures persist but that our business mix continues to improve. Even with an estimated 100 basis point impact from LIFO charges, we still expect to grow operating income more than sales. We also expect Walmart US comp sales growth of 2% to 2.5%. International sales growth in constant currency of approximately 6% and Sam's Club comp sales growth of approximately 5% excluding fuel. Based on FX rates at the end of our fiscal year, we estimate a potential year-over-year enterprise sales tailwind of about $1.2 billion from currency.

Our purpose starts by helping people save money and live better, and it's more important than ever in this environment as consumers manage household budgets more tightly making frequent trade-offs and biasing spending toward everyday essentials. We're reinforcing our value proposition across our merchandise offering including featuring high quality owned brands and leaning into opening price points. We're accelerating share gains in our food categories and seeing signs of improved attach rates in consumables in high frequency purchase areas of general merchandise. Our multiyear sales and operating income targets are just that, multiyear. In some years our performance will be higher and in some years lower. We are confident, however, that we're building a business that allows us to grow our top and bottom line throughout an economic cycle.

Over the past 5 years, sales have grown approximately 6% on average excluding divestitures. This year will likely be lower, but we look forward to getting back to a sales growth trend more in line with what we've delivered over the last few years. Over that same period, operating income has grown at about half the rate of sales growth on an adjusted basis excluding divestitures. This is the result of important investments we've made in associate wages, pricing, technology and supply chain which together strengthened our core business and positioned us well for the future. Importantly, while we navigate some of the short-term challenges, we're continuing to invest for the future. Invest in ways that strengthen our retail advantages by expanding our capabilities in marketplace, ad platform, data ventures and fulfillment as a service.

We're providing more convenience for customers, including Pickup & Delivery, Scan & Go and Walmart+. We're working in partnership with our suppliers and sellers to use data, scaled fulfillment capabilities, and our rapidly growing ad platform to elevate inventory accuracy and in-stocks, lower the cost to serve, and drive improved conversion. All of this improves the trajectory of our ROI and our margin profile. We will continue to invest in our associates through increased pay and benefits to reinforce the ladder of opportunities at Walmart, but we're managing our costs in a way that allows us to achieve our operating income goals with these investments. In other words, we're staying true to our commitment of everyday low cost enabling everyday low prices.

We expect FY 2024 CapEx to be flat to up slightly in total dollars compared to last year as we continue the multiyear investment in technology and innovation to optimize our supply chain and stores. Many of these tech enhancements are reaching a stage where we can rapidly deploy them across our network, and we have clear line of sight toward better efficiencies and ROI on these investments in the medium term. I want to call out a few other assumptions for our guidance for the year. Gross margin rate is expected to increase this year though not back to FY 2022 levels yet. We expect gross margin to benefit from the lapping of higher supply chain costs and markdowns from this past year as well as growth from our newer initiatives many of which have a higher profit margin.

Partially offsetting this, we expect product mix and inflation-related LIFO charges to be gross margin headwinds. Based on current assumptions for inflation, LIFO charges for both Walmart US and Sam's Club could approximate roughly $500 million this year with a headwind equally proportioned across quarters. This is an improvement from the $1 billion LIFO estimate we provided on the Q3 call due to moderating inflation in key merchandise categories and reduced inventory levels.

It's important to note that inflation, inventory levels and additional factors will influence the aggregate amount. We'll commit to providing updates as we go through the year. With sales growth expected at a lower rate versus the prior year, and our commitment to continuing to invest in our people and technology, we expect SG&A to delever slightly in FY 2024.

There are also several below the line items that will pressure EPS for FY 2024. First, interest expense is estimated to be about $750 million higher than last year. This translates to an approximate $0.20 year-over-year EPS headwind with Q1's impact less than the remaining quarters. Second, we do not expect a repeat of the benefit we realized from certain discrete tax items last year and as such expect our tax rate to be more normalized in FY 2024 at 25.5% to 26.5% resulting in an approximate $0.10 EPS headwind. And lastly, in our non-controlling interest line, we expect an approximate $0.12 EPS headwind related to acquiring full ownership of Massmart and Alert Innovation as well as the impacts to minority interest of strong expected performance at Walmex.

In total, these below the line factors account for approximately $0.42 of year-over-year EPS headwind. The impact from these below the line items offsets the gains we're making in our core business resulting in EPS being slightly down for the year. We expect full-year EPS of between $5.90 and $6.05, including a $0.14 headwind from LIFO. For the first quarter, we expect to see a higher rate of sales growth of 4.5% to 5% largely due to inflation. We expect operating income to increase 3.5% to 4% including the negative impact of a LIFO charge of approximately 235 basis points. EPS is expected to be in a range of $1.25 to $1.30 including an approximate $0.03 headwind from LIFO. While we're not providing quarterly guidance beyond Q1 I want to offer the following perspective.

We currently expect sales growth to be strongest in the first half, then moderating in the second half, reflecting our macro assumptions and more difficult year-over-year comparisons. Because we will lap the benefit we received last year from insurance proceeds in 2Q, we expect operating income to be flat in 2Q relative to last year. We expect operating income growth to begin to outpace sales growth to a greater degree in the second half of the year versus the first half.

In closing, I want to echo Doug's sentiment on our business. Over the last year, our team responded to some of the external challenges with the speed and nimbleness rarely seen in a company of our size, and we exited the year in a much, much better place. As I reflect on where we are today, I am more excited about our future than at any point in my time here. The opportunity in front of us is incredible. Our customer/member value proposition has never been stronger. Perhaps that's more obvious during times like this when the consumer is pressured.

We have become an omnichannel retailer. Who else has the stores and clubs so close to so many customers and members combined with first and third-party eCommerce and the combination of grocery and general merchandise and in multiple attractive countries? We're in the right markets with the breadth of assortment and ways of shopping like no one else with impactful and emerging digital and technological capabilities. Our plan leverages our strengths to serve our customers and members in more ways. We meet them where they are, to continue to help them save money and time to help them live better.

But what you're going to see in the years to come is that we will keep changing. And the changes will improve the composition of our P&L. We will have related, diversified, higher margin earning streams that are scaling rapidly. You will begin to see the significant benefits from the investments that we're making in things like our supply chain automation and our expanded eCommerce capabilities. We're at an inflection point to begin to accelerate margin expansion, reinforcing that the algorithm is in space. The macro pressures this year may obscure some of that progress but won't take away from the long-term promise of many of these initiatives. We look forward to sharing more at our Investor Day in April.

Thank you. Let me turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. And our first question comes from the line of Oliver Chen with Cowen and Company. Please proceed with your question.

Oliver Chen
Analyst, Cowen and Company

Q

Hi. Thank you. Great quarter. Would love your thoughts on consumer health and what you're seeing with respect to unit growth in terms of your guidance and your thoughts about how that may manifest. And then John David on the technology call-outs, advertising, Walmart+, artificial intelligence, what are your thoughts on things we should focus on in terms of those scaling? And then finally Judith, you had impressive momentum. Double-digit growth at Walmex and China. On the China re-opening would love any comments. And on the price investments at Walmex, that would be helpful as well. Thank you.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Oliver, you did a great job working in like six questions, five questions in that one. This is Doug. Well, we'll try to make sure we cover all those. You may have to remind us one or two. Let's start with consumer health and I'll just ask Kath, you, John and Judith to quickly comment and Judith you can work in the answers to the questions he asked in if you want to. We were talking just before the call Oliver about which adjective to use and we were coming up with words like choiceful, discerning, thoughtful. I think you can see it in the mix impact. Customers are still spending money. When you think about our guidance and the place we positioned it, it's obviously not as clear to us what the back half of the year looks like as what we're experiencing right now and the momentum that we had coming out of the fourth quarter. But that's the way we would characterize them. They're making choices. We expect that to continue through the year.

Do you want to add something for Sam's?

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

A

Yeah. I would just say as we went kind of through Q4, we are watching with interest to see how they behaved in home and apparel, GM, discretionary. We're happy to see high single digit comp growth there. And we're watching as we went through Super Bowl and Valentine and we're still seeing kind of that hold. So, yeah, positive with where we're at, at the moment.

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

A

Oliver, thanks for the question. First, I just want to say thanks to all of our associates for delivering a great quarter and everything they did last year. There are so many things that they went through collectively and they just did a great job building momentum as the year went on. On the consumer, I think choiceful is a great word to describe it. There was momentum coming out of the fourth quarter. But Walmart's built a lot of options for customers and we'll be more flexible than we have been in the past whether it's in the store or pickup or delivery. John David mentioned the momentum that we have with delivery from stores. So we'll be there for customers as things continue to shift.

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

A

Yeah, maybe, hi, Oliver. For international it actually was a strong quarter which ended a strong year for us with that top line and bottom line growth of around about 9%. That strength came out of a number of markets and you touched on Mexico and China. But India as well had a good year. Maybe just talking about the consumer, what never ceases to amaze me as you think about being a global business is how similar the consumer is around the world, which we can take a lot of learnings from. And certainly events, moments that matter, were important to consumers. We also saw continuing rise in their digital capabilities and what they're looking from for the businesses. And then the third area that I would talk about is the rise of private brands in terms of the way consumers were shopping as well. And that's pretty much held true in every market in which we operate.

Maybe turning to Mexico, so I'll pick up the third part of your question within that first piece. Another strong quarter for Mexico. This actually tops off the ninth year in a row that Mexico has gained market share. And I think one of those things is testament to the strength of the formats in Mexico and the way that they appeal across all sectors of the Mexican and Central American population as well. The consumer health there again choiceful, thoughtful are really good words to describe it. But that breadth of format allows us to play right across that spectrum. And in the quarter Mexico continues to invest in price. They saw their largest-ever price gaps in Bodegas which is the key format. But their strength really comes from a 3-point advantage that they have.

The first is they continue to open new stores, which customers still want to be able to shop in physical stores. We're opened 126 stores last year. We continue to expand our eCommerce footprint in omni-channel on demand so grocery, online and pickup is going from strength to strength. And they interestingly, and I think this speaks to the consumer as well, are building out their ecosystem. Where you can get trust, value and convenience in offers, such as our BAIT which is our MVNO in Mexico, our Cashi payments capabilities. We've seen strength there.

So China – turning to China, clearly the big news in China was the opening of China. As I look, though, into last year, we saw continued strength in Hypermarkets, which is the higher end offering that we have within China, slightly different positioning to Sam's Club in the US and in Mexico. They continued very strongly. But also people shopped back into Hypermarkets again and we saw some of our best performance in Hypermarkets than we have for some time.

But the real consumer trend, and it's probably one that is worth taking note of globally, is what's happening in eCommerce in China. So you'll have seen in the results that we talked about 70% growth in Q4, which was 163% two-year stack for China on eCommerce growth and the penetration now reaching 48%. That is undoubtedly helped by the buildup into Chinese New Year. That buildup fell into Q4. But we continue to see that as a key part of economic behavior.

With the opening, we have seen people returning more to stores, which is what you would expect, and also wanting to celebrate events. And I think that Chinese New Year position speaks to that. So overall strong for International. Consumer behavior similar around the world. It holds up as well in India, which also had some strength in that and nowhere more so for the digital economy than our Flipkart and PhonePe businesses.

[09KB89-E John David A

Oliver, this is John David. I'll take the question on the initiatives. And one of the exciting things about this is actually how they all work together. And importantly not just working together, but how the investments that we're making in our supply chain help to make this a profitable operation for us. It's tough to single out one particular area, but if I had to, I'd say Marketplace is perhaps the linchpin of all this, because that gives us the ability to sell third-party merchandise as well as first-party. And just this last quarter, we now have over 400 million SKUs on our Marketplace. And a significant portion of those are actually avail themselves of our Fulfillment Services as well, which is a great benefit for us.

But as we get more assortment on the Marketplace, we get more eyeballs coming to our website, that allows more advertisers or makes advertisers want to spend money there to – with the larger audience. And this all sort of works together. And if you look at our eCommerce business today, it's an $80 billion business and still growing. And we have a lot of opportunity there going forward. And so we're – we've always been known for price, but, as Doug noted in his remarks, we're also now being known for convenience. And a lot of the things that we're doing are helping our customers live better with the convenience that we're offering.

Oliver Chen Q
Analyst, Cowen and Company

Thanks, Doug, John, John and Judith. Appreciate it. Best regards.

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

Simeon Gutman Q
Analyst, Morgan Stanley

Good morning, everyone. One theme of a question is the flywheel and the balance between investments and bottom line growth. The near-term question of this theme is the 2024 outlook looks like it's burdened by some maybe fleeting items, LIFO in particular, some of the bottom line. So what's the right way to think about it? Are these good guys into 2025 and/or the house money that you invest? And then the conceptual question on this flywheel is what do you do with the high-margin earning streams, John David mentioned? Have you set out whether or not that goes back in the business and you grow your EBIT dollars faster or you do let your margins expand at a faster rate? Thank you.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Simeon, this is Doug. I'll kick it off and then John David can add. I think generally it's the latter. We feel like that our price gaps are in a good spot, that we've made the thoughtful wage investments that we need to make. That doesn't mean that wages may not continue to go up over time. But generally, the shape of the income statement is in pretty good shape. And then we've got these other items that are [indiscernible] (37:18) that change the business model. And so you end up mixing yourself – I think John David did a great job in his remarks describing we're going to face some merchandise mix pressure this year across markets, but the business model itself, the business mix is changing. That's been our strategy and now we're starting to see some of those numbers grow, as in with advertising income.

I think in the investment category, the thing that we're most excited about is the automation opportunity we have, and that's reflected in our capital guidance. We've shared with some of you how excited we are about some of the things that are in front of us in distribution centers that will impact stores in a positive way. But that's more of a CapEx and balance sheet investment view than shaping the income statement differently as we've done in recent years.

[09KB89-E John David

A

Sure. And I'll add, Simeon, that we do expect to see our return on investment improve marginally this year. That's what's in our plan. But that's really before we expect a sharper acceleration in the years to follow. And we'll give you more insight into that at our Investor Day. But we're very mindful that we need to show a return for these investments. But the good news is the early reads on some of the things that we're doing are really exciting and support that continued level of investment. I'll give you an example like our perishable DCs, where we put some automation in place, we had a plan around what that would result in increased throughput in terms of cases per hour, the actual results are almost 50% better than that. And so that like gives us conviction to want to accelerate some of this. Same story with some of our eCommerce DCs, where we see a 12 step process going down to 5 steps, making us a lot more efficient. And so these are high ROI investments where we've got clear line of sight into the return. So to your point, this allows us to not only invest appropriately with our associates and in continued technology, but also to see margin expansion over time.

Simeon Gutman
Analyst, Morgan Stanley

Q

Thank you. Good luck.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I'll just quickly add our sales have been stronger these last few years. I mean, the 6% CAGR over the last five is a much higher number than you would have experienced with the company previously. But then we had these unusual things happen with COVID costs and last year, inflation and supply chain costs, and we're hoping for something that looks a little more normal going forward that would enable us to push through this strategy in a way that you see it in operating income growth.

Simeon Gutman
Analyst, Morgan Stanley

Q

Thanks.

Operator: Our next question is from the line of Chris Horvers with JPMorgan. Please proceed with your questions.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks, everybody, and good morning. So can you talk about how you're thinking about the Walmart US comp guide of 2% to 2.5%? Inflation has barely ticked down in recent periods. It's still up double digits. Are you expecting grocery unit trends to deteriorate? Is gen-merch still down this year and ultimately do you expect the US business to go negative in the back half on a potential recession? And sneaking in a second, on the Sam's side, the business has a lot of momentum with comp and strong KPIs. Can you talk about how you're thinking about the opportunity to grow clubs over the next three to five years? Do you see it as an opportunity to fill in existing markets or expand in sort of less dense markets and new geographies on the coast? Thank you.

[09KB89-E John David

A

Good morning, Chris. This is John David. I'll start and then turn it over to Kath and John for a little more color on their segments. But with respect to our guidance, look, guidance is – it's tricky insofar as you want to provide transparency, but you – but also you need to balance that with reliability. And as we sit here today, we look at the progress that we're making in our business and we've got a lot of conviction and excitement around that. But there's a lot of uncertainty with the macro backdrop. We've now been in a position where we've seen the Fed tighten this sharply. We've seen issues where delinquencies are up in things like auto loans, you've got savings rates that are coming down and there's a lot of unknowns on the back half of the year. So what we've attempted to balance with our guidance is a cautious outlook on the macro environment, but coupled with a lot of excitement about the progress that we're making. And so I think the read through on our guidance is just that there remains to be a lot of unknowns as we're sitting here just a few weeks into the year.

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

A

Yeah, and, Chris, this is John. I'll just build on that. Certainly pleased to see some of the momentum in food and other categories including unit growth in the last quarter. There was both traffic and basket expansion which are both positive indicators. I think John David described well the way we're thinking about the year, cautiously given all the unknowns in the operating environment. But I would just highlight the team here in Walmart US have done a great job expanding our ability to deliver from stores, deliver from fulfillment centers. You heard a bit about automation. So there's a lot of investment that we feel great about the return possibilities given the experience we've had with some of these technologies.

And as you bundle all this together, we're positioning ourselves well I think to be able to grow and continue to grow like we have the last few years. Since we merged our eCommerce and store business together just about three years ago and Walmart US we see growth of almost $79 billion, almost $80 billion for the three years. So quite a bit of growth there and the team is really focused on top line as you'd expect of a big merchandising organization like this one.

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

A

And if I just pick up on the Sam's growth, I think we've talked quite a bit about the 12 quarters of double digit comp growth. But if you look underneath that, strength and growth across traffic every single one of those quarters across ticket, membership income has grown solidly across those 12 quarters. We've grown in eComm, we've grown with Scan & Go. If I look at the actual membership composition, we're growing with mid to high household income group, with share of wallet. We're growing with millennials and Gen Zs as the largest growth area in our membership base.

And then if I look at market share, we're growing market share in our club channel despite not opening clubs while our competitors were opening clubs. So if you look at that suite of metrics, you look at it in – you realize that the value proposition we have at Sam's is winning and it's resonating with our member base. And it's resonating with new members. And so we are looking at growing both in fill-in opportunities as well as into new geographies where we don't have as large a presence. So we're excited about opening clubs. It will take us a minute to build up that pipeline but we've already got some exciting areas we're looking at.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks so much. Have a great year.

Operator: The next question is from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. On this call there's been a few different references to an algorithm, to 6% top line growth compounded over the last few years, to growing operating income faster than sales. Previously we were under the expectation that Walmart was managing its business over the long-term to a 4% top line growth and greater than 4% operating income growth. It's going to fall short of that this year. Is it still realistic expectation that Walmart is managing the enterprise to that 4% top line, 4.5% – better than 4.5% operating income growth number? And is it reasonable for that to kick in as early as next year?

[09KB89-E John David

A

Michael, good morning. This is John David. Good to speak with you. Yes is the short answer. It's absolutely realistic to assume that. But when we put out multiyear targets, they're not designed or not intended to suggest that we can hit that in any macroeconomic environment in any year. And so we're certainly – our guidance this year reflects some of the pressures that we see broadly in economies around the world. But we'll be able to give more insight into both our top line and bottom line in terms of what we anticipate over the next several years at our investor day in April. But we absolutely 100% believe that we've got a business that can drive that kind of outcome where we've got sales growing at 4% or higher frankly as well as operating income outpacing that. Again, it goes back to my earlier comments around some of the investments that we've made not only in our supply chain but in investing in our associates and some of our technology that really put us with – give us a footing to realize some of these results of margin expansion and outsized growth in our bottom line over the next several years.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Oliver, this is Doug. I'll just second what John David said and then call out this last five years of performance again and say 6% and 3%, 6% top line, 3% bottom line is obviously not 4% and 4%. But we don't feel too bad about the 6%. And we just wish that that 3% was a 6.1% and we'd be in really good shape. So we don't know exactly what the external environment is going enable us to do, but because this business is based on value and has a breadth of categories we are positioned to do well relative to the market regardless of what happens in the environment. And as we're doing it, as you've heard us say for a long time now, we're changing the business model so that operating income can grow while still having low prices. Doing both at the same time. That's what we've set ourselves up to do and we're making progress at that and you can see it in the results in the pieces that we've shared with you already.

[09KB89-E John David

A

If I can just say one more thing, Michael, what we're fundamentally focused on is growing the absolute dollars of free cash flow each year. It's when we look at the composition of our business of how it's changing and the returns related to some of these initiative areas, it's just such that the financial architecture suggests that the operating income should outperform sales growth over the next several years, but fundamentally we understand what creates value for shoulders and we're focused on growing the absolute dollars of free cash flow.

Michael Lasser
Analyst, UBS Securities LLC

Q

And just to clarify that, John David, to the extent that you do better especially in the US business this year, should your incremental margins on that upside be consistent or better than it's been historically given you'll be lapping COVID costs, a lot of inventory disposition and other factors that shouldn't repeat this year?

[09KB89-E John David

A

Yeah, it's a good call-out. I appreciate the opportunity to address that. You're right. If you look particularly for the US business, the incremental margins will be higher this year than what you typically see. And a large part for the reason that you mentioned. We're lapping – even in the last quarter we lapped $500 million of COVID costs alone in that quarter. But when you look at it on a full-year basis that creates a tailwind in terms of incremental margins.

Michael Lasser
Analyst, UBS Securities LLC

Q

Thank you very much.

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

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. We were just wondering with regards to the promotional environment within grocery, are you still finding the promotional environment rational? Are there any areas that maybe aren't as solid as others? And I think you've alluded to this on the call today but your view on the need for price investments in food going forward and the possibility of that being incorporated into your guidance for this year.

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

A

Hey, Kate. It's John. Good morning. Thank you for your question. First, I'd just anchor what we're doing in the purpose of the company is to help people save money, and live better. So we're constantly thinking about making sure that our values are appropriate given what's going on in the relative marketplace. And as Doug alluded to earlier, we're encouraged by the price positioning relative to the market and will continue to work on that. Externally I wouldn't call it any major shifts in what we're seeing in terms of promotion. There has definitely been a shift and we see this internally as well an acceleration in the fourth quarter to more private brand versus branded product. That shift really began last March and continued all year, in the fourth quarter got a bit stronger. We don't set targets for branded versus private branded. We want to be there for any customer and make sure quality and value are right across all product lines but there's definitely some acceleration to private brands in the last 90 days.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

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

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. Curious if you could talk about what the net income of both Flipkart and PhonePe was on consolidated results this past year and what your expectations are built in to guidance for this upcoming year. I'm also just curious what the plans are for that business and your ownership of those businesses. And then just a quick one, sorry if I missed it, but your share repo or share count assumptions that are built into your guidance for this upcoming year. Thanks.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

We had a difficult time hearing you. The question was about Flipkart and PhonePe and is it reflected in our guidance for the year forward. That's all we got. Can you clarify a little bit more for us?

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Sure. It was really about how much Flipkart and PhonePe contributed to results this [indiscernible] (51:12) this upcoming year? Also the ownership of that business [indiscernible] (51:17)? And then the last question was just on share repo assumptions or your share count assumption that's built into guidance [indiscernible] (:51:26).

[09KB89-E John David

A

Paul, this is John David. There was a little bit of bad connection, so I'm going to attempt to answer this and if we don't completely address your question, then we can follow up after the call. But the one-time cost related to the separation we called out separately from our results related to restructuring. But in terms of the core business and the way that that affects our results, a lot of our GMV growth, a lot of our revenue growth is coming from in particular Flipkart. We see great progress over there, where they continue to be a strong player in the market that they operate in.

And as I noted in my comments on the call, we're in much better position right now with respect to some of the investment that we've made historically. Any eCommerce or any digital platform, you need an infrastructure that you can scale at a low marginal cost. And that's what Flipkart has done. They've invested in that infrastructure over the last three years, so now we're able to see that contribution profit continue to expand. And so we're excited about that.

I think there was part of your question that was related to the separation of PhonePe and Flipkart and what that allows them to do and Judith, please feel free to jump in here. But to me this is in some ways it's very analogous to eBay and PayPal where each of them operating independently can pursue their own initiatives and they don't necessarily need to be tied together. And so this is an opportunity for them to unlock and realize more value independently than they can by themselves.

Judith, anything you'd add before I go on?

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

A

Yeah, maybe just a comment on the separation of the key businesses. So, you have to remember when we first invested into Flipkart, PhonePe had only just launched. It was four months old. And it had an annualized TPV of kind of like in the tens of millions of dollars. As that business has grown and as the Flipkart business has grown, whilst there are partnerships between the two commercially, actually we recognize that each has been successful and we're setting them up on a path for long-term success.

As I look at Flipkart now and John David referenced it and so did Doug, I'm really impressed at the contribution margins which are positive and been consistently positive for some time. And that sets them up structurally well. Not only from a cost perspective in terms of the infrastructure investment that we've made for the eCommerce business for their delivery and distribution business, but also the way they're working on their margin mix. In PhonePe, I think the highlights there are, clearly I talked about the size of their annualized TPV when we acquired them. That has reached $950 billion in last year, at the end of last year that was their run rate. And then now doing $4 billion transactions a month.

So that separation allowed us to put both of them on the path to being the very best businesses they can be in the long term. And the fundamentals of India remain strong and in fact it's strengthening all the time. So, it was a challenge from some of the adjustments that we needed to make in order to do that. But really testament to the strength of both businesses and the economy in which we operate.

[09KB89-E John David

A

And I believe the last part of your question related to share count assumptions for this year. Let me take the opportunity to just talk about capital allocation broadly in answering that question. We've been historically very balanced with respect to our capital allocation both investing organically what we've done in mergers and acquisitions as well as dividend and share buyback, and we will remain balanced going forward. But as we sit here today, I think the scales tilt a little bit more towards organic investment when we look at the returns related to that. Every dollar of capital has to compete for the highest returns.

And as noted in my comments earlier, when we see the returns around some of these technology and supply chain investments, these are ones that we think translate into increased shareholder value. And so relative to last year, you'll probably see us do less on share buybacks and therefore it will have less accretion in terms of the earnings impact. But last year we saw dislocation in our stock, and we were opportunistic and more aggressive at that period of time and we'll always be responsive to factors like that in the market. But our planning assumption is to buy back less stock than we did last year.

Operator: Our next question is from the line of Karen Short with Credit Suisse. Please proceed with your question.

Karen Short
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thanks for taking my question. Just two. First of all, I wanted to talk about the Walmart US EBIT margin structure, specifically within your guidance. Obviously 2022 or your fiscal 2023 had its own separate challenges and we know there's the LIFO headwind in fiscal 2024. But I guess I want to talk a little bit about what the US EBIT margin structure could be like going forward in fiscal 2024 relative to pre-pandemic. And then the second question I would just ask is that you are obviously cautious for the reasons that you called out. But prior evidence is that you actually tend to do very well in weak macro environments/recessions. So I'm just curious on why there's such a much more cautious tone. Thanks very much.

[09KB89-E John David

A

I'll start, Karen. It's good to speak with you. John may want to jump in. But I'll start with the first part of your question. So the EBIT structure related to the US business, there's a couple factors there. One is if you look over the last 12 months, we had a mix shift in our business from GM to food and consumables of over 300 basis points. And we actually don't expect that to improve this year. In fact, we expect it to get a little bit worse, not by the same magnitude but slightly worse. So that affects the margin structure.

But as noted, our business composition or the things like our initiatives, advertising, Walmart Fulfillment Services, those are contributing to a larger share of our overall business, which has less of an impact as we look at this fiscal year. It will be more pronounced as we get into the next year and the year thereafter that, where you see the margin structure change a little bit more. And certainly, LIFO is something that we expect to have some impact this year, but not a prolonged effect in the years that follow. So hopefully that gives you a little bit of color on the EBIT profile.

With respect to our cautious tone and the fact that we tend to do well when the consumer is pressured, look, we recognize that. We also think that we've got a great value proposition for consumers in good economic times, too. And we're eager to demonstrate that.

But again, I would just point you to the fact that there's just a lot that we don't know. We could tilt into a recession. We don't know what happens to consumer spending. We don't know what happens to layoffs, household income. And so given that we're so early into the year and there's a lot of unknowns right now, we're simply taking a cautious outlook.

Karen Short
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks very much.

Operator: The next question is from the line of Robby Ohmes with Bank of America.

Robert F. Ohmes
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning. Thanks for taking my question. My question was just if we could maybe get a little more color maybe from Doug on Walmart+ and sort of how it's doing versus your – more on how it's doing versus expectations and what the customer is responding to for the new signups in Walmart+ and how do you see profitability of first-party eCommerce business evolving. Is that key to getting back to that long-term algorithm of growing operating income faster than sales?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Robby, I'll go first. This is Doug. John is going to jump in here, too. I'll just say that the way that the business model is evolving that includes 1P plus 3P plus the services that go along with that, including advertising income, to us make a ton of sense. They're mutually reinforcing. We're excited about the progress that we're making there. And Walmart+ is one ingredient of that. And we'll continue to describe Walmart+ to you, but not do that in such a way that the market gets overly focused on that metric. Because we want to be evaluated on several metrics, not just one metric. And we've seen other companies end up with some sort of shorthand, where people are watching one metric to determine the future of the company and it's just not that simple in Walmart. Obviously, people want to pay for delivery in bulk with an annual membership, not per delivery. That's what led us to this point and now it opens all kinds of opportunities up to us and we like what's happening behaviorally with Walmart+ but it's just one component of a plan.

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

A

Yeah, I think that's a great way, Doug, to describe it. It's an important part of what we're building. And it's a way that customers can access an interesting combination of all of our assets from our digital front-end which has become one experience over the last couple years, the fact that we have inventory within 10 miles and 90% of the population is another way that this all comes together. And the business model itself, we've said this before and I'll just repeat it, it's becoming more difficult to measure the differences in eCommerce and stores because stores are acting as fulfillment centers at times, they're stores primarily. And then, there are fulfillment centers.

So, there are a lot of blurred lines between all these channels. So having an offer that is great for consumers in terms of the behavior they're seeking, which is convenience, and not worrying about incremental delivery fees is working fantastically. Now, it's also important to note that this tends to be a younger more tech-savvy consumer, which is great. In some cases, a higher income customer. So as we've said, in the most recent quarters, we've gained share with higher income customers. Walmart+ with delivery and then these other businesses like advertising, fulfillment services, Marketplace, all add up to a better proposition for both the customer and the company.

Robert F. Ohmes
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

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

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. And thanks for taking my question. I was hoping to ask more on food inflation. As your team looks forward, what's your expectation for food inflation? And then, I'm also curious on what you're seeing right now on the inflation front for non-foods.

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

A

And generally speaking, food inflation has been the most stubborn of all the categories. We were in mid-double digits in Q3 and Q4, hasn't come down all that much. A little bit I guess we could say it's come down in the last couple of months. But it still would be a high level of disinflation at this point. So, this looks to be a little bit higher than what we were expecting going into the year, but this all leads back to the comments earlier on uncertainty. We would have hoped and expected it to have to come back more than it has going into this year. There are other parts of the business where prices have come down more, like in general merchandise, but overall, I think we're taking a very cautious outlook and going to continue working on doing everything we can to try to keep prices as low as possible for our customers.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I think the way to think about it is dry grocery and consumables are stubborn mid-double-digit and those are going to just be with us for a while. And it will get a little confusing because you'll probably hear inflation numbers that start to sound lower, but you'll have to remember that's on a two-year stack. So if inflation in dry grocery and consumables is only 3% or 5%, that's on top of 15%. And that's still a problem for the customer and still will pressure their wallet. In the fresh categories, things are a little bit different, like eggs were at 200% inflated in January, they're down now to being just 50% inflated. That's still a problem.

Milk is actually less than a year ago. Beef is lower in terms of pricing. So, think of the fresh categories as kind of bouncing around going up and down and being more volatile. It's dry grocery and consumables that we think are going to create the pressure that customers are going to feel and have the impact as it relates to us on mix over the course of the year. And that's one of the variables that's a little hard to call, what will GM look like in the back half of the year.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you for all the color.

Operator: Our next question is from the line of Kelly Bania with BMO Capital Markets. Please proceed with your question.

Kelly Bania
Analyst, BMO Capital Markets Corp.

Q

Hi. Good morning. Thanks for taking our question. Just wanted to understand a little bit more some of the factors that were pressure – that were cycling from fiscal 2023 including the pressures from markdowns, mix and supply chain. Wondering if you can just help us understand the magnitude of those pressures this year and what is baked into your guidance for fiscal 2024, particularly I think I heard you say maybe, correct me if I'm wrong, 300 basis point gap again between grocery and general merchandise again this year. So, just trying to understand that, the magnitude of that mix. I'd assume markdowns are planned to be much lower but maybe you can help us there. And then are you baking in some cushion for a more promotional environment or just help us understand really what is baked into some of those major margin buckets as we look to next year?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Before these guys comment I just want to quickly call out that we're profitable in food and I don't want this to grow to the point where people think, they make money in general merchandise, they don't in food. There's a delta between all things food, consumables, but there's some really profitable businesses in fresh and other areas. So we want to manage that mix but I just don't want this to get too far out of balance.

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

A

And on the – great point, Doug. And on the 300 basis point, that comment was related to last year, the shift – the difference in mix between food and GM in the year that we just experienced. So we do think we'll have some mix impact going into this year which we stated but we don't – we didn't say it was 300-basis point for the year we're going into. Certainly, food inflation and GM sales can change that number and that's why, as we said, taking a cautious outlook. Because food inflation amongst other things has remained more unstable than what we have expected. So it's higher than what we thought it would be.

But that point on food being a profitable business at Walmart is important, so if the customer wants to spend more on the food categories and general merchandise will be there for them, of course we would like to sell both because we have a really strong seasonal business and it's like we said earlier, we had a strong Valentine's, a strong New Year, pleased with the holidays that we just went through in the fourth quarter. But we want to remain open and flexible for the customer given any environment that we find ourselves in.

[09KB89-E John David

A

Yeah, Kelly, this is John David. I'll add just a little bit more color and maybe looking at the fourth quarter is a good way to frame this. Our gross profit declined a little over 100 basis points. I think it was 112 basis points in the fourth quarter. That was predominantly if you had to bucket that, the largest contributor to that was markdowns followed by mix. And so as we look at where we are today with much better position around inventory and John, jump in, if you disagree here, but I feel like this year will be more of a normal environment for markdowns or certainly more normal than what it was last year. And to John's point, the mix impact is appreciably less than what the 300 basis points, a little more than 300 basis points last year.

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

A

Yeah, this is the time last year just to remind you back in February, March last year we were really getting caught up from ocean backlogs and receiving product that should have been onshore as much as six months prior to it being unloaded. And the cost, the markdowns, the impact and everything from store labor to creating overtime, we expect some of those to be better. However, down 3% inventory, we're proud of that position. But there's still pockets of inventory in stores and some fulfillment centers and some categories like apparel where there's still work to be done. So we want to make sure that we have room to address those things as we get into this first half of the year.

Operator: Thank you. Our final question is from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

Thanks. Really had a follow up on the US traffic trends and then on Sam's Club. For the US, it sounds like in that guide the deceleration to second half comp is all from less inflation and you still expect traffic to up through the year. Just want to make sure that's clear. And second on Sam's Club, any more insight in terms of the members you've won and I know you had a fee hike last year. Has that had any influence in terms of the rate of growth of at least member counts or any sort of inflection there or anything on renewal rates given the first in a decade fee hike? Thanks.

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

A

Hey, Greg. Good morning. It's John. Yeah, certainly I would expect that there would be growth in traffic. That's what we've been seeing over the last several quarters led by food and consumables. The growth of Pickup & Delivery and then eCommerce to home are also helping. So stronger results in eCommerce at its core and also stronger from the delivery business John David mentioned in his remarks that we had $1 billion-month in December, which is really exciting to see what the team has scaled from and to over the last five or six years. Certainly some acceleration since the two channels, eCommerce and stores were merged together last about three years ago. But continues to be a lot of great work done, increased capacity in fulfillment all across the network.

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

A

Yeah, and I'll just pick up from the Sam's perspective. I think last year we had a couple of big acquisitions around Super Bowl and then around July 4. And I think the marketing of those as well as the offering with Curbside and Scan & Go and Convenience meant that we're attracting a lot of – a lot younger member base than what we've previously had. So I think we're really happy with the way the membership kind of composition is trending. And then if I just look at like the renewal rate, we're not seeing an impact from the fee increase.

Remember that this year we did do an offset with Sam's cash, and that's pretty much what we're seeing is it's kind of neutralized any impact we could have expected to see to our renewal rate. But it's also meant that those members because they get Sam's cash available to them on the app are becoming more digitally engaged with us. So this whole kind of approach around driving Convenience and digital engagement is working and we're seeing growth through the absolute membership numbers as well as staying strong in renewals.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

If I could, I'd love to follow up on the eCommerce part of the US. You talked about margin drivers with advertising and gave us some numbers there. Can you tell us what 3P is now as a percentage of that eCommerce business or shipments or any insight there?

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

A

That's something we haven't disclosed, but we did say earlier which is important is that absolute number of items is now over 400 million. We have a really strong leader in the business who is building capabilities and we know that there's seller demand. Sellers all across the market are looking for more ways to diversify their own business, so this is a great time for us to make the improvements we're making with things like signup and the ability to list catalogs more easily and that's led to the item and SKU count growth.

Gregory Scott Melich
Analyst, Evercore Group LLC

Q

That's great. Good luck and thanks.

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

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

Thank you all for your interest in the company. I think the three headlines are strong results, great team, bright future. On the results side, we have momentum. The fourth quarter was really good. We've got the inventory into a good place. We're on our front foot as we start the year. As it relates to having a great team, just look at what they did last year. When the world changed they moved quickly at scale to deal with issues. They got them resolved. Q3 was better, Q4 even stronger. And as it relates to our future, we're now positioned to serve the customer how they'd like to be served. Stronger on convenience as well as being known for value. If they want a pickup, we can do that. If they want delivery, we can do that in various forms. And obviously we've got great stores and clubs.

And then secondarily, the business model is changing. Some of the things we've been working on for these last few years are starting to scale and we're excited about that. So as we begin the year we're going to stay focused on those things and drive them and have the best possible year. And we'll talk about our guidance at the end of the year to see how we did. We'll go drive the results and that will be our focus. Thank you, all.

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