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Gregory Scott Melich  
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MANAGEMENT DISCUSSION SECTION

Gregory Scott Melich  
 Analyst, Evercore Group LLC

Good morning, everyone. I'm Greg Melich. I cover the retail broadlines and hardlines here at Evercore ISI. It's my pleasure to have with us today, John David Rainey, the Chief Financial Officer of Walmart. An exciting almost first year under his belt. And John David, it's a pleasure to have you with us. Thanks for coming. And I'll have you introduce the team.

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

Yeah, Greg. Thanks for hosting this. It's a pleasure to have the opportunity to speak with this audience. With me today, I've also got Kary and Steph, so they'll join me in answering some of your questions. We're really looking forward to it.
QUESTION AND ANSWER SECTION

Gregory Scott Melich  
**Analyst, Evercore Group LLC**

Thats great. So, I'll kick right off on a strategic update. Walmart has undergone a lot of portfolio shifts in terms of international businesses and even different capabilities that they bought or gotten rid of divested. I just want an update now on where we are in terms of the portfolio of the business both geographically and by function?

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

Sure, happy to do that. International has got a little more focus since we talked about it at our Investor Day a couple of months ago and for good reason, its an area of a lot of excitement. India gets a lot of attention with what's happening there with Flipkart and PhonePe. Its not crazy, Greg, to think that both those businesses could be $100 billion businesses in the future. And so, its quite exciting there.

But our international portfolio is much more than that when you think about the rest of our footprint. And I would say we're pretty comfortable with where we are right now. And there's not necessarily a region of the world where we think that we need to be, where we're not. And so, I think the international portfolio is probably pretty stable at the moment. We get asked a lot of questions about this, particularly when people try to derive the return on invested capital for this portfolio. But there's a couple of things that are probably worth noting, and it's a little into the weeds, but if you'll indulge me on this.

But with respect to some of our investments internationally, like JD.com and some of these others, if you think about the equation of return on invested capital in our accounting for that, we actually have nothing in the numerator, but a number in the denominator, because that is just mark-to-market each period. By the same token, acquisitions that we've made in the past like Asda, when – because we segment report at an international level, we still carry the goodwill from that even though we don't – we no longer have that entity. And so, our return on capital in the international entity is actually quite a bit higher than what one can surmise by looking from the outside in.

And so, we talked at our Investor Day about this plan that we have over the next several years of growing operating income faster than sales. Well, international is a big component of that. In fact, we expect both on a sales basis as well as operating income basis, the international portfolio, to do better than the rest of the enterprise.

Gregory Scott Melich  
**Analyst, Evercore Group LLC**

Interesting. And I guess maybe a same question then in regards to the mix of the business. You've talked about the flywheel on those, whether its an advertising business or 3P marketplace. Could you help us sort of level set where we are now in terms of that and getting those back to profitability and driving increased returns?

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

Happy to. In the US, I feel like we're beginning to hit our stride and some of these initiatives that go beyond retail, things like advertising, things like fulfillment services, data ventures and depending upon what region of the world,
we have advanced at different paces. And so, if you just think of e-commerce broadly in China, roughly half of our business is e-commerce. And so, there's a good balance between brick-and-mortar and e-commerce. India obviously is almost entirely a digital business.

But when you think of areas like Canada or Mexico or Chile, those are areas that I think we can continue to build out some of these other suite of services that include the things that I mentioned around these digital services, like advertising, fulfillment services. We made great progress with what we're doing in Mexico, but I think we've got more to go. And so, it's more of a continuation of what we talked about in the US with different levels of advancement.

**Gregory Scott Melich**  
*Analyst, Evercore Group LLC*

Got it. So, maybe then bringing it back home a little bit, where are we? Where — what's the bigger opportunity? Is it in marketplace, is it in fulfillment, is it in media, if you look at these — the new businesses domestically?

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

Well, they're all interdependent. And we won't be able to do any one of them in isolation without being really good at the other. So, I think it starts with the value proposition that we provide around convenience and what that does for our customers. As we move more into the channels that are responding to the ways in which they want to shop, it gives us the opportunity to go in and advertise to them more for a third-party seller fulfill their — the sale of that item and deliver it to our customers. They're all very large opportunities. Advertising is probably the one that gets the most focus. And so, I don't want to talk about that at the expense of the others, but certainly it's a big opportunity.

When you look at what some of our competitors are doing in terms of their advertising dollars relative to their GMV and then, you look at Walmart, you would argue that we're way underpenetrated. But I think the important thing for us, if you think about any digital business, the challenge is scale and in scaling those opportunities out. Well, we're starting today with scale. We've got hundreds of millions of customers that come to Walmart each week. And so, if we can leverage that with these digital opportunities, it gives us a real advantage.

**Gregory Scott Melich**  
*Analyst, Evercore Group LLC*

Are there any other capabilities that you need or are we sort of piloted and tested the capabilities, so that now you can scale the back end, whether it be from innovation, logistics, et cetera?

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

At a macro level, I don't feel like there's anything that we're missing. At a micro level, I think we can get a lot better at some of these capabilities, understanding our customers, understanding what creates great buying experiences for them, where they want to come back with frequency and shop with us in multiple channels. And so, this is part of building that muscle. We are less advanced to some of the leading companies in this space. And so, that's what we're doing right now, but that's what excites me about the opportunity that we have in front of us.
Maybe to pivot a little bit, we walked around the world, we got to the US strategic, Sam's Club. It's a business that a few years ago we were closing clubs. Now, we're going to start to re-open clubs. I guess what changed here? Is it inherently lower margin than Walmart US or not and help us figure that out.

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

The nature of Sam's in the way that we price for our customers, it is a lower margin business. But if you look at the last three years, setting aside the last quarter, we've had tremendous growth, double-digit comp growth over the last 3 years, 12 consecutive quarters. And we're always looking at where we can change our portfolio, but whether it's adding to it or removing from it in some cases. And in the case of Sam's, we identify some good opportunities where there's a good market fit and a market need, and it gives us the conviction to go out and add 30 stores over the next several years. Sam's in many ways is – and honestly, I think sometimes gets overshadowed from this larger US segment. But there's a ton of exciting things to talk about in Sam's, in particular, what we're doing with the digital engagement of those customers.

And one of the things I love to talk about is the scan and pay or Scan & Go where someone can use a mobile device to shop in store and then seamlessly checkout and not have to wait in line. What's interesting about that, Greg, is roughly one in four of our transactions is done that way. And if you step back and you think about that for a second, that's a digital experience in a brick-and-mortar world, right. There are few experiences or few other companies that can probably point to that level of penetration in that type of experience. And so, I think it's really a great example of where we're advancing, where we're following the customer to make sure that we're providing the type of experience that they want.

Gregory Scott Melich  
Analyst, Evercore Group LLC

We actually had Frank Blake at the conference earlier today, and he was talking about the data that the retailers have and how that's so critical and the ability to use that to drive customer satisfaction. So, maybe to pivot to a little bit more of the business today and the top line drivers, I would say Walmart's traffic, we've seen accelerate to 3% or better with the comps running north of 5%. Could you help us understand what categories are driving that and some of the consumer makeup within that that's driving that growth?

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

Sure. Well, we're mostly benefiting from higher growth in grocery right now, food and consumables. And as customers' wallets are being pinched, you'll certainly see them have more discretion with some of these larger ticket items. And they're looking for value, value and convenience. And so, we've seen share gains, most notably in grocery. And when you think about the income demographics that we're seeing [ph] that end (00:09:34), it's pretty dispersed across the three income tiers that we follow earlier. And going back last year, when we were seeing higher inflation, it was more skewed to the higher income groups. But I think more recently, it's been more evenly dispersed among all income groups.

But an important thing here, Greg, is that this is not just about value. This is also about convenience. And as we continue to see robust growth in things like delivery from store or people buying something online and picking up in store, we're providing convenience to customers. And I think very importantly, if you contrast that to a lot of other trends that we saw throughout the pandemic, some of those trends, for good reason, like went out during the pandemic, but then reverted back to trend line. This is an area of our business, and specifically what I'm
talking about is the grocery delivery or buying online, picking up store or picking it up in-store. It's continue to go up into the right throughout the pandemic and then after it.

So, one of the things we look at is the weekly average customer count of our customers. And in the last quarter, we talked about that being 40% up year-over-year. Well, it's been that way for several quarters. If you go back four years ago, this has been a consistent trend up into the right. And so, I think it really shows that this is as much about convenience as it is about value.

**Gregory Scott Melich**
*Analyst, Evercore Group LLC*

Interesting. So, maybe to follow up on the value side of that and we'll get to convenience, how would you frame your price gaps today versus 12 months ago or pre-COVID versus the competition?

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

We're comfortable with our price gaps today. And I think that's been the case for the last three, maybe four quarters. And certainly, if you go back multiple years ago, I think there was a recognition that we needed to invest in that area. We needed to invest in our pricing. We've done that, but we operate in a dynamic, competitive environment. So, we're going to continue to do what's best for our customers, do what's best for Walmart. So, [ph] I mean, things (00:11:38) changes from time to time, but we don't see a period or a step change, investment in this area. So, it's something that we look at every Monday morning, we have a meeting where we're monitoring our prices versus the competition. And as we stand here today, we feel comfortable with where we are.

**Gregory Scott Melich**
*Analyst, Evercore Group LLC*

Got it. And we have the Mission Impossible theme at the shareholders day. Maybe follow up a little bit on that, what can Walmart do to help reduce inflation? And where are we with rollbacks and how – what can that go to historically in terms of the number across the store and in categories?

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

Yeah, I'll start here and maybe, Steph, you might want to jump in on the rollback piece. But we're working. We recognize, first of all, like the headline inflation numbers are coming down, because we're lapping higher prices year-over-year, but prices are still high. If you're a consumer and you're going to fill up a basket of groceries, of food, it's still roughly 20% higher than it was two years ago. Our mission is to provide the very best pricing for our customers that we can. And so, we work with our suppliers to try to make that happen. But we also – we've got a big private brand business with Walmart US roughly 20% a little bit ahead of that. Greater than 20% of our sales are in private brand items and Sam's, it's closer to 30%. So, this is a good vehicle to be able to provide value to our customers.

Steph, do you want to talk a little bit about some of what we're doing on rollbacks?

**Stephanie Schiller Wissink**
*Senior Vice President & Head-Investor Relations, Walmart, Inc.*

Yeah, I think to David's point that we're working very closely with our suppliers and our vendors, particularly in dry grocery, but across the overall grocery and consumables basket to be very directed about how we use rollback dollars. And we're concentrating those are on major events where we know the consumer is looking to us to fight
inflation even harder for them. If you recall, even last fall, we started this campaign where we would effectively
digest inflation for the consumers. So, Thanksgiving meal at last year's price or a holiday basket at last year's
value, we carried that all the way through our spring marketing campaign, and it's proven to be really effective for
us, not only in driving customer engagement, but also reinforcing our position.

And I think we're gaining some goodwill among consumers right now, in addition to overall working very closely
with our suppliers to make sure that their dollars are the most effective for them to drive the volume they need as
well. So, it's a continuation of what we've been doing and what's been working, but you're going to see more of
that as we get into the back half of the year. Back to school is a really important point for us to reinforce that value
proposition, and then, you'll see that continue into the fall and holiday season.

**Gregory Scott Melich**
*Analyst, Evercore Group LLC*

Just to maybe frame it a little bit, I think I heard the number a few weeks ago when I was out there that we're –
have hundreds of rollbacks now. I think they're typically, what, 90 days and then. But in the past, I remember
there being thousands of Walmart rollbacks at other periods of time. Is that the kind of magnitude that could
increase over the next few months?

**Stephanie Schiller Wissink**
*Senior Vice President & Head-Investor Relations, Walmart, Inc.*

Yeah. I think what John Furner shared last – a couple of weeks ago at our shareholders event is that you could
see a doubling into the back half, but I don't know [ph] whether they (00:14:48) put a 10x multiplier on it.

**Gregory Scott Melich**
*Analyst, Evercore Group LLC*

Okay. So, that's definitely the direction, I guess. Maybe to pivot a little bit, John David, you mentioned before it's
value, but it's also convenience. I thought one of the things we saw recently was that, the [ph] Pickup 2.0
(00:15:02) also with delivery, which you mentioned. And just follow up with more on where you're really getting
traction with those initiatives.

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

Yeah. Well, a lot of what we're doing there is also automating that supply chain, whether it's the automated
storage and retrieval in our fulfillment centers or what we're doing in our stores and these micro fulfillment centers,
that's making it a lot more efficient for us and enabling us to better serve our customers, reduce wait times, have
more accuracy in terms of the items that we're picking for that basket, because we're continuing to see consumer
behavior shift in that direction where they recognize that it is a very convenient process. But moreover, I think if
you are a consumer, probably like I was and prior to the pandemic, you probably didn't think about online grocery
or group of grocery delivery, because you were concerned about the quality of the goods that you were going to
take, whether it was the wilted lettuce or the hard avocados, you wanted to make sure that you had the ability to do
that. As customers go through that experience and they have a very good experience, they're much more likely to
come back.

And what's important for us, as we think about the expansion of the portfolio of products that we sell, customers
get used to doing that. Then, they're more likely to add that general merchandise item that they can fill into that
basket, have it delivered to their house or pick it up at the store. So, convenience is a really important part of
where we're going here. I think importantly, when we look at or we surveyed the Mindshare scores for – from our
consumers, we’re rated right now for convenience almost as high as value. We’ve never been there historically. And so, I think it suggests, Greg, that what we’re doing is working and it’s resonating with customers and we want to continue to do that going forward.

**Gregory Scott Melich**  
**Analyst, Evercore Group LLC**

And could you remind us the number of stores that are getting the remodel this year to – and I won’t – I’ll throw out the 20% number, I think, we heard in some New Jersey stores. But feel free to dial that back if you want and update us on the store rollout?

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

Yeah. We’re really excited about a lot of these remodeled stores we’re doing. What is the total number that we’re doing? 300. But the number that Greg is referring to is, during our Associates Week, it was disclosed that some of these stores are seeing an uplift in sales as much as 20% after we’ve remodeled them. And you have to experience this for yourself. It really is – it’s a different Walmart when you go to it with improved waypoint finding signage, wider aisles, displays around apparel, and it really has a different look and feel as well as additional brands that we haven’t traditionally carried.

And so, we’re quite excited about it. But to the 20% number, one would expect and we’ve seen this historically, when you have a remodel, you’re going to get a little bit of an uplift in sales and sometimes that abates over time as that newness wears off. The uplift that we’ve seen around this is much, much higher than what we traditionally see. We would, again, expect it to decline over time. I don’t expect any of us believe that we’re going to have a 20% uplift in sales in perpetuity. But even if it’s a fraction of that...

**Gregory Scott Melich**  
**Analyst, Evercore Group LLC**

Right.

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

...this is a highly accretive ROI initiative for us. And so, we’re quite excited about it. We’re pretty early on into this as well. I don’t want to overstate this. We’ve only done a few stores, but the early returns are quite exciting.

**Gregory Scott Melich**  
**Analyst, Evercore Group LLC**

Another, I won’t call it the last and certainly not least, top line drivers, Walmart+, you talked about delivery. I loved it. Where does that fit in the realm of things you’re doing to build that loyalty and traffic, particularly with the new customer? I mean, our survey work suggest you’ve got around 12 million members and when we back out some of your numbers. Feel free to update that.

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

[indiscernible] (00:18:48)
Hard to take it. But fundamentally, where are we on Walmart+ members?

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

Yeah. So, I think Walmart+, we’re in the beginning stages of this, quite excited. And what’s really interesting to me about this, Greg, is the group of customer that we see this has, it’s a more – it’s younger, tends to be a little more fluid, more tech-savvy customer that again really values convenience. And if you think, going back to this convenience notion that matters to people irrespective of your income level. And when you look at, like grocery pickup as an example, roughly 50% of our Walmart+ members come through that channel or grocery delivery. So, it’s someone that really values the utility of that membership and what it can provide.

But I think very importantly, for us, it allows us to have more digital engagement with that customer. So, we better understand them and can tailor our offerings that are most relevant to them versus trying to guess and pick and choose certain things that are really based upon more macro level customer stats. So, we want to continue to do this, we want to continue to provide value and utility. I think importantly, we need to get better at some of the things that we provide here. Like, if you think about one-day delivery or two-day delivery or in some cases, we may have to cancel an order, like, we have room for improvement there. But these are all things that we’re working on and making great progress.

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

Greg, let me just add to that. This is a follow-up from our Associate Event. One of the things we’re doing uniquely with Walmart+ is we’re co-creating this experience with our customer. So, there’s a very strong feedback loop embedded in the development of Walmart+ as a platform. John David is spot on, the value equation is very clear from an economic perspective, the conveniences are increasingly becoming clear. But even going into desirability and help me live better, the other side of our mission, right, save money and live better. So, you’re seeing value added to the Walmart+ platform based on the feedback loop we’re getting from our customers, going out to the market and finding things that help them live better and making that available as part of their overall [ph] Walmart+ (00:20:55) experience.

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

Looking at the CLV or the customer lifetime value of a Walmart+ member, it is appreciably higher than someone that doesn't engage with us this way or is not availing themselves of that membership. They tend to have – they spend more with us and they tend to shop more frequently. And so, it's something clearly we want to have more of our customers take advantage of, because of the benefits that we see to Walmart.

Gregory Scott Melich  
Analyst, Evercore Group LLC

Is the lift 50% or does it double, any?

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

I'm not disclosing the number, but...
Gregory Scott Melich
Analyst, Evercore Group LLC

Okay.

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

...I guess I would describe it as appreciably higher. We're not talking [ph] $10 or $15 (00:21:32). It's much higher with that customer.

Gregory Scott Melich
Analyst, Evercore Group LLC

Got it. Well, maybe I think on our last 10, 15 minutes, I want to get to some of the fun stuff, like margins. It's great to drive the top line and the traffic, but it's also good to make more money doing it. So, could you just get into some of the drivers of the margin expansion that you've talked about that you can get back to the goal of growing EBIT faster than sales?

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

The margin expansion that we talked about and we really I think drilled in on this at our Investor Day, where we talked about growing margin much faster than sales, it's a result of a number of things, but fundamentally the mix of our business is changing. If you think about a 4%, 5% margin retail business, which is growing at a low-single-digit rate, and then you combine that with these faster growing elements of our business, like Advertising, like Fulfillment Services, like Data Ventures, and I'm not even talking about like what's going on with Flipkart and PhonePe, and some of these other entities. These are all things that are improving their margins and have higher margins at a much greater rate and growing faster. So, the pure mix of our business is changing. So, that's one element of that.

The second piece of this is moving more into GM. By moving into ecommerce channels and having a marketplace of third-party sellers, it allows us to provide assortment and merchandise that we haven't historically to customers. We see that the customers that are coming there are buying more GM. And so, that tends to carry a higher margin than some of our food and grocery.

The third area, Greg, really relates to the pure unit economics of what we control and delivering these services and goods to customers. And supply chain is, I think, the best example to point you right there. We're making a tremendous investment in our supply chain. You've got the opportunity to see some of this. You mentioned that, but the unit economics around fulfillment will improve by roughly 20%. We'll be 20% lower rather, I should say, in five years when we complete this. In the next five years or three years, I think it is, we're going to have roughly 65% of our stores that are served by automation. And so, this provides a better experience, more integrity to the experience with our customers, also lowers our unit costs. And so, it's expanding more into GM, it's having these other businesses grown faster, and then improving the unit economics of the services that we provide today.

Gregory Scott Melich
Analyst, Evercore Group LLC

So, if I was thinking about a unit economics standpoint over that three, four, five years, should I be thinking about supply chain costs coming down 20%? If they were 5% of sales, that could be a 100 bps of margin or can I include some of the store costs as well, so maybe even have it be more than a 100 bps opportunity. Am I framing that right?
The opportunity is in excess of 100 bps, but you’re thinking about it absolutely the right way. It applies to both our FCs and DCs, but also the stores themselves. We focus a lot on supply chain technology, but we’re implementing technology like our VizPick system and electronic shelf labels. Electronic shelf labels save a ton of hours in a store over the course of a period like a quarter, because you’re not needing to go in and change all of those manually. And all of this, all of this automation really gives us an opportunity to operate much more efficiently and allow our associates to do what they do best, and that’s serve our customer.

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

And Greg, maybe just to finalize that point on associates, our expectation is that our population of associates would remain relatively flat over the next several years. So, we don’t expect to see a drawdown in the number of people, but it’s redeploying each individual person to do different jobs and upskilling a good majority of our workforce into places that they are serving the customer or more close in proximity to the customer or doing things within the automation sequence, where they’re serving and contributing to the overall technology. So, a real good opportunity for our associates as well, but not expecting to have major changes in our overall head count.

Gregory Scott Melich  
Analyst, Evercore Group LLC

[indiscernible] (00:25:48)

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

Go ahead. I’m sorry, Greg.

Gregory Scott Melich  
Analyst, Evercore Group LLC

I guess what I would say is – my next question is going to be basically that, which is that you’ve invested a lot in labor over the last few years. I think wages have been up probably low-double-digits a few years ago and probably up mid-singles this year. Is that moderates back to something more normal, the way here is really to get more productive out of the labor, is that what...

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

That’s true. And to restate what Steph said slightly differently, we believe we can grow into this. And our labor, we feel comfortable with where we are today, whether it’s our average wage or our starting wage. And the wages for our associates have increased tremendously over, whether you look at a three-year period or five-year period. And so, we definitely want to continue to pay our associates appropriately, but it’s not just about an average hourly wage. We view this as career. Like if you just take a staff like promotions, 88% of the promotions or positions, I should say, that have been filled at the store above a start or an entry level have been filled by people that are Walmart associates. And so, we’re not going out and hiring someone off the street necessarily. We’re giving someone the opportunity to advance.

And so, I think that’s really important as people think about their own wealth creation and career growth at Walmart. But I want to go back to this point that you mentioned around margin, because what we said at Investor
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Corrected Transcript
14-Jun-2023

Day is that we expect over the next several years that on average sales will grow about 4%. Some years it may be more, some years it may be less, but on average about 4%. And we said that operating income should grow faster than that. But very clearly, like I'm not talking about like 5%. If all we do is 5%, I'll be disappointed. And so, we showed this range of outcomes, I think kind of cleverly and in a shaded graph here, but upwards of almost 8%.

Gregory Scott Melich
Analyst, Evercore Group LLC
Okay.

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
And so, we think there’s a tremendous opportunity if we execute on the initiatives that we control to dramatically change the margin profile of our company, and what that really translates into is increased free cash flow, better profits, and then you get into capital allocation. And so, it’s a big opportunity for Walmart going forward.

Gregory Scott Melich
Analyst, Evercore Group LLC
No. That’s a great way to tie it together. I wanted to make sure that we didn’t leave out those – that business mix part that you talked about at the beginning. What is a reasonable goal for things like the media business as a – if I look as a percentage of sales, of digital sales or how do we even frame what the opportunity is there?

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
The way that we look at it internally and I think the external metrics around us as well as looking at as a percent of GMV, but call it roughly sales today. And if you look at what some of our competitors do or who are best-in-class is that, that approaches 10% for some people. But that’s also dependent, Greg, upon the types of items that you’re selling. And so, you’ll see more advertising as it relates to GM than you will food, it’s easier to attract advertising dollars for a pair of sneakers than it is a head of broccoli. And so, if you were to take that 9% or 10%, which is kind of the high watermark in the industry for people like us and normalize that for our mix of business, that actually translates into, call it, roughly 6% [indiscernible] (00:29:20) math here, but roughly 6%, 7% GMV. And so, that’s an aspiration for us. If we did that, that would put us in the top 10, probably advertisers in the US in the next five years. And so, it’s a big opportunity.

Gregory Scott Melich
Analyst, Evercore Group LLC
Is there an opportunity beyond just product sales and vendors that you might already be working with and maybe other, I’m just thinking examples like, would Marriott Hotels want to advertise with you knowing that somebody has been looking at luggage.

John David Rainey
Chief Financial Officer & Executive Vice President, Walmart, Inc.
Yeah. Absolutely. And I think that’s a not insignificant opportunity at all. But I think very importantly, we want to make sure that we advertise in a way that provides a better experience for our customers. We don’t want to over-rotate here and just try to monetize advertising dollars and throw a bunch of stuff and offers in front of our customers that aren’t relevant to them. And so, we’re always going to keep our focus and our eye on our mission, which is helping our customers save money, live better. And so, we’re going to be probably a little more – use a
little more discretion in certain areas around advertising. But in your example, if that's relevant to that customer and we believe that that's something that we want – that they would want, we would absolutely consider something like that.

**Gregory Scott Melich**  
Analyst, Evercore Group LLC

Got it. So, you don't want to go crazy, whether it's a slippery slope, but if it's targeted and makes sense.

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

Exactly.

**Gregory Scott Melich**  
Analyst, Evercore Group LLC

Great. So, then maybe in a last few minutes, I got to get – we did margins, I wanted to make sure we get to returns and balance sheet and cash flow and all that good stuff. So, CapEx is going up, I think you guys have mentioned maybe close to [indiscernible] (00:31:01) how you framed it. When do we get that ROI inflection?

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

Yeah. So, let me start with the way that we do capital allocation is every dollar has to compete for all the alternatives that are out there. And right now, we believe the single best investment is investing in ourselves and in some of the CapEx, because of the high ROI around that. And what we've stated there is, despite a more elevated level of CapEx, we believe that our ROI can go up every year. And to me, that's a good governor or guardrail to make sure that we're not telling the investment community, we promise or just wait, we're going to spend all this money and this will come several years later. We want to demonstrate that we can invest in our business while seeing our return on investment go up each year. It will go up a little bit this year. It's going to go up a little bit more than that the year after that, more the year after that, based upon the trajectory of the investment that we're making.

But that said, we believe it's important to be balanced to capital allocation, and that includes returning cash to shareholders through the form of share repurchases and dividends, and we're going to be aggressive where it's appropriate. If we think our stock is undervalued, you'll see us be more opportunistic, but we believe that it's always appropriate to return cash to shareholders through share repurchases. When we look at our multiyear plan, our five-year plan and the economics around that, that should drive share gains much greater than what we see today. And so, we're investing for the long-term here. We're thinking about this in the same way that any investor would.

We also would aspire to continue to increase our dividend. We are a dividend aristocrat. We've been increasing our dividend for a number of years, and at some point in the future, we'll be able to maybe hope to have a step change where we increase it even more to perhaps have a higher payout ratio than what we do today. But I think it's important that we demonstrate that that comes with increasing margins, increasing free cash flow before we do that.

**Gregory Scott Melich**  
Analyst, Evercore Group LLC

And when you talk about payout ratio, is that a percentage of prior year earnings or how would you think about it?
John David Rainey  
Chief Financial Officer & Executive Vice President, Walmart, Inc.

Prior year earnings, if you look historically, go back 8 or 10 years, that's vacillated or been in a range of call it mid-30s to mid-40s, and that's probably what's been appropriate for our business in that period of time. I think we don't really have a targeted payout ratio or as a policy, I should say, we have something we target internally, but we don't have a policy around that. But this is an opportunity for us in the future, if we were to change that and be – send a different message to the Street how we are thinking about that dividend.

Gregory Scott Melich  
Analyst, Evercore Group LLC

And maybe the last part of that question is the – what's the optimal leverage ratio? I mean, obviously, a lot of changes in rates, you own a lot of your real estate, fortress balance sheet, but is there a number of debt to EBITDA you target or?

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

Yeah. We generally target a 2x leverage ratio, AA credit rating. That provides us the most flexibility whether it's respect to using that capital, also considering things like commercial paper. But I think importantly for us, like we have a tremendous amount of opportunities when we think about capital allocation, we're always going to be looking at this through the lens of what creates the most value for shareholders. If you look at our leverage ratio today and you were to map out or graph out like where you get to the lowest weighted average cost of capital, it would suggest that we could lower it marginally, but we lose some flexibility by doing that. So, we really like where we are with roughly a 2x leverage ratio and AA credit rating.

Gregory Scott Melich  
Analyst, Evercore Group LLC

Makes a lot of sense. And I think we're – our time is coming to a close. So, John David, appreciate your time. I think we've got through a lot in 35 minutes. Kary and Steph, I'll be annoying you to figure out what remodels tour we should tour at summit next year. Thank you for joining us and have a great rest of the summer.

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

Okay. Thank you, Greg. Appreciate it.