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Walmart, Inc. (WMT)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Daniel Binder

Senior Vice President, Corporate & Enterprise FP&A and Investor Relations, Walmart, Inc.

Thank you, Rob. Good morning, and welcome to Walmart's fourth quarter fiscal 2022 earnings call. I'm joined by members of our executive team, including: Doug McMillon, Walmart's President and CEO; Brett Biggs, Executive Vice President and Chief Financial Officer; and John Furner, President and CEO of Walmart US.

In a few moments, Doug and Brett will provide you an update on the business and discuss fourth quarter and full year results. That will be followed by our question-and-answer session.

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

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

C. Douglas McMillon

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

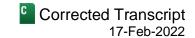
Good morning, and thanks for joining us to hear about our fourth quarter results. Let's jump right in.

Our team delivered net sales growth of 7.6% and adjusted EPS growth of 9.3% excluding divestitures. We continued to gain market share in food and consumables in the US, and comp transactions were positive. Consumer demand during the quarter was strong, and the team overcame a number of challenges in the US and around the world to deliver these strong results.

Going into the quarter, we were confident that we had the people, the products, and the prices to deliver. And we did. Our inventory position improved. And we delivered high sell-throughs in seasonal categories across markets. Food, consumables, and apparel were also strong globally. We comped low single digits in general merchandise in the US against strong results last year. And Sam's Club saw broad-based strength across categories in the US and in China.

Our merchants are doing a nice job of navigating the pressure from cost of goods inflation with our customers and shareholders in mind. I like how we're mixing out the business. Consolidated gross profit rate increased 10 basis points for the quarter, including more than 50 basis points in Walmart US. We're working closely with our

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suppliers to manage inflation, finding a few places where we can roll back prices. And we're paying close attention to how we manage our opening price point items. Q4 and the full year are proof points that we can keep our price gaps in the range where we want them, grow market share, and deliver against our top and bottom line growth algorithm.

Our associates did an amazing job of serving customers and members during this busy season, even as we faced Omicron and supply chain challenges. This quarter's COVID leave peak was larger than anything we'd experienced in 2020 or previously in 2021. We hired more associates than our plan called for to help fill that gap, which negatively impacted expenses, but it was clearly needed.

I'm grateful to our associates and store and club management teams for how they set priorities on behalf of our customers and members during the quarter. As I visit stores and clubs, it's inspiring to see how our team is navigating such a fluid environment. They're delivering tremendous growth, while making significant progress against our longer term strategy.

During the fiscal year just ended, excluding divestitures, we grew net sales by 9%, grew operating profit by 18%, invested \$13 billion in CapEx to grow our business, returned \$16 billion to shareholders via share buybacks and dividends, grew our advertising business globally to \$2.1 billion, and took important steps to grow our US financial services capabilities with agreements to make two key acquisitions.

Sometimes it feels like 2020 and 2021 were just one long year. If you look at growth since the beginning of fiscal 2021 through the end of fiscal 2022, excluding divestitures, our company is about 17% larger in terms of revenue, 31% larger in terms of operating income. And globally, our percentage of digital sales grew from 6% to 13%.

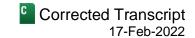
As the company grows, we're fueled by the new business model and flywheel we outlined last year. Our strategy is coming to life. Ensuring that we deliver our strategy is where I invest the majority of my time. It starts with the customer and earning primary destination. The big basket stock-up trip is important. It's foundational to our relationship with families. We earn that shopping occasion by running great stores and clubs and offering seamless pickup and delivery experiences, including for our Walmart+ and InHome members in the US.

Our membership offering, Walmart+, continues to be an important piece of what we're building. We're adding capacity for pickup and delivery. We increased capacity by nearly 20% last year. And we expect to increase capacity by another 35% this year.

For Walmart InHome, we recently announced an expansion of this membership service to make it available to about 30 million homes in the US, up from 6 million. To enable the expansion, we're creating roles for more than 3,000 associate delivery drivers. The majority of these roles will be filled by existing experienced associates. We'll be building out a fleet of all-electric delivery vans to support our delivery services and our goal of a zero emissions logistics fleet by 2040.

Our flywheel is designed to serve families more broadly, deepening our relationship with them and creating a healthy mix of merchandise and services for our business. Recently, we shared some news about our fintech start-up in the US that will operate under the ONE brand going forward. The combined talent of our JV leadership team and that of the pending acquisitions of ONE Finance and Even is impressive. And our plans are aggressive. We can help our customers and Walmart+ members save money, have an experience with less friction, and help strengthen the financial position for millions of families.

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As with our advertising business, our financial services capabilities cross borders. Our PhonePe business in India is growing incredibly fast. And we have strong capabilities in Mexico, which is such an important market for us.

As we look to improve the customer experience and strengthen the mix of our business, expanding our Marketplace is important. We added more than 20,000 new sellers to the platform in the US last year and expect to add nearly 40,000 more this year. We're now up to nearly 170 million SKUs, and we're adding more every day. We opened up our US Marketplace to sellers from India and created a dedicated team there to help sellers onboard and grow. Many sellers are looking to diversify their business. And they're pushing us to add capabilities, including the expansion of our Fulfillment Services.

We grew our US GMV delivered by our Fulfillment Services by 500% last year. We expect the robust growth will continue this year as we add more capacity. For Q4, our Fulfillment Services represented 44% of total Marketplace orders in India and 22% in Mexico.

Growing our Marketplace expands choice for our customers, helps our sellers grow, and enhances our profit margins. Our plan for this year includes strengthening the experience for sellers and adding fulfillment capacity so customers have access to more items faster. It's clear to me that we have years of profitable Marketplace and Fulfillment Services growth ahead of us.

Staying on the theme of fulfillment and scaling new businesses, we recently launched Walmart GoLocal, a last-mile delivery solution using our Spark Driver platform to help businesses of all sizes reach more customers. GoLocal is making deliveries for The Home Depot and other large retailers, but I'm most excited about serving small local retailers. We have nearly 1,000 GoLocal service pickup points, and we expect to end this year closer to 5,000. This is good for customers, our clients, and for us as we lower the cost per order by increasing the combined order size and the route density.

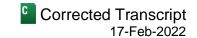
As we bring more customers, sellers, and suppliers into our ecosystem, it expands our ability to monetize those relationships. A great example is our advertising business. Globally, it's been growing at a high rate, with high margins and is now a \$2.1 billion business in only a few years, and we expect this strong growth to continue. And as our eCommerce business, including Marketplace, continues to grow, so will our advertising business. We're taking the learnings from the US and India and growing in places like Mexico, Canada, and Chile.

Importantly, we're beginning to build tech platforms that can be leveraged in multiple countries. Our strong team of technologists and our digital transformation enable global synergies. We see traction in our core business as well as in our newer businesses. There is real power in the ability to make these pieces mutually reinforcing, to design them such that one portion of a customer relationship leads them to another because it's easy and intuitive. Connecting B2B opportunities, like advertising, enables us to grow earnings and make key investments at the same time.

Because of how the flywheel is coming together, I feel great about our ability to deliver against the growth algorithm we discussed last year of about 4% top line growth and operating income growth rates higher than sales. We've highlighted the increased costs we had in Q4 from COVID, supply chain, and wages, and some of these costs are likely to continue through part of this year. But I feel confident in the underlying strength of the business and our ability to deliver the growth we expect. The Walmart we're building is becoming more impactful for our customers and members, more digital, more automated, and more diversified on the top and bottom lines.

Now, let's move on to our performance by operating segment. I'll begin with Walmart US. The team had a great holiday season and they drove comp sales of 5.6%. You know about our strength in food and consumables, but

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despite the supply chain challenges, the seasonal hardlines execution for holiday looked good in stores. We're continuing to navigate cost pressures and in-stock challenges, but, overall, I'm really proud of the team for delivering the holiday season. And I believe we'll work our way to an improved in-stock level through the course of the year.

Building a seamless omni-channel experience for customers and prioritizing convenience for them is critical. Our stores have become hybrid. They're both stores and fulfillment centers. Last year, we increased the number of orders coming from our stores by 170% versus the previous year, and that's on top of more than 500% from the year before. Having inventory so close to so many customers is a competitive advantage. In some cases, we're getting items to customers in hours, rather than days.

In Sam's Club US, the momentum continues. Sales and membership were strong. Excluding fuel and tobacco, comps were 10.8% for the quarter and nearly 26% on a two-year stack. Membership income grew 9.1%, driven by membership count, which reached another record high during the quarter. The team leveraged operating expenses and grew operating income 24% excluding fuel. They had another fantastic quarter and year. Sam's continues to drive digital innovation and add capabilities. Our Bold & Blue club remodels and our strengthened pickup and delivery services will drive growth.

At Walmart International, we had another strong year, with good progress in all aspects of the flywheel. Overall, sales were strong again in Q4, with growth of 9.8% in constant currency excluding divestitures. China, Mexico, and Flipkart led the way. Our 21% eCommerce penetration is a new record and up nearly 400 basis points from last year.

We get to serve a spectrum of holidays and festivals during the holiday quarter from Diwali and Big Billion Days in India through to preparation for Chinese New Year. During Big Billion Days, 40% of sellers were first-time sellers on the Marketplace, and more than 100,000 kiranas participated by making last-mile deliveries. This is strong inclusive growth.

While our omni-channel model gives the gift of time, access and affordability remain important. We're expanding our ecosystem. And we've made investments in areas such as healthcare, Marketplace, telecommunications, and our online food business. A few great examples include the launch of Flipkart Health+ that aims to increase access to affordable care in India and the acquisition of Foodmaestro in Canada to build more personalized shopping experiences for customers. And BAIT, our value-based internet and telephone service that enables customers in Mexico to enjoy digital connectivity, surpassed 2 million members.

It's great to see all three of our operating segments doing so well. I'm grateful to our strong and capable leadership team and to all of our associates. We've had an incredible couple of years during these challenging times. We have momentum in the business. We have aggressive plans, and we're executing on this strategy. It still feels like we're just getting started.

I'll now turn it over to Brett.

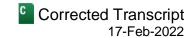
Brett M. Biggs

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

Thanks, Doug. We wrapped up another great year with a strong fourth quarter and good momentum as we start the new year. Over the last couple of years, each quarter has presented unique challenges, but I'm proud of how we've navigated each one of those. The fourth quarter was no different, as we faced the rise of Omicron with its



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impact on the supply chain and our associates. This resulted in some significant unexpected expenses, but, despite that, we delivered the top and bottom line results we expected.

We continue to execute on our strategic initiatives to fulfill the vision we outlined last February. The US flywheel is accelerating and is evident through initiatives like our pending fintech JV acquisitions, the launch of a new data business, and acceleration of last-mile delivery. Sam's growth in membership income has been strong throughout the year, as we expand omni options including Club Pickup. These and other key initiatives represent large revenue and profit opportunities over the next few years.

For the full year, we had record sales of \$568 billion with increased traffic to stores and clubs while eCommerce penetration approached 13%. Walmart US grew sales by more than \$23 billion and saw strong market share gains in food and consumables. Over the past two years, our US segments have grown sales by \$67 billion or 17% and operating income by 25%.

Now, let's discuss Q4 results. As a reminder, the previously announced international divestitures significantly affect year-over-year comparisons, so my comments today will exclude the effect of divestitures. Total constant currency revenue grew 7.9% to over \$153 billion and reached another important milestone with quarterly net sales exceeding \$150 billion.

Consolidated gross margin rate increased 5 basis points, with Walmart US gross margin rate increasing by a healthy 54 basis points, reflecting primarily price management resulting from cost increases in mix, along with benefits from a growing advertising business, partially offset by higher supply chain costs. Supply chain costs were over \$400 million higher than expected, but we expect some of those costs to abate over time.

International gross margin rates were lower, due primarily to format mix. SG&A expenses deleveraged 19 basis points, as increased US wage costs were partially offset by strong sales and lower COVID costs versus last year. Although COVID costs were lower than last year, we had significantly higher associate leave costs in the US than anticipated. In the first three quarters combined, COVID leave costs were about \$600 million, but increased over \$450 million just in Q4, presenting an unexpected headwind of over \$300 million. Despite these expense challenges, adjusted operating income increased more than 6% and EPS increased more than 9%.

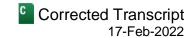
We're in a great financial position, enabling us to allocate capital towards both growth and shareholder returns. Free cash flow was \$11.1 billion for the year, down versus last year due primarily to inventory build throughout the year, higher CapEx, and cost increases. We increased share repurchases significantly this year, with buybacks of just under \$10 billion, a pace we plan to continue or increase in the coming year given our view of the long term value of the company.

In addition, we announced the 49th consecutive annual dividend increase this morning. ROI increased 90 basis points to just under 15%, the best level in five years, due primarily to growth in operating income.

Now, let's discuss the quarterly results for each segment. Walmart US had its first-ever \$100 billion-plus sales quarter with sales of \$105 billion. Comp sales grew 5.6%, up more than 14% on a two-year stack. We continued to grow grocery market share, as food comps increased high single digits while health and wellness, apparel, seasonal, and automotive categories were also strong.

Transactions were up more than 3%, despite COVID pressures. eCommerce sales grew 1% against strong gains last year, resulting in a 70% two-year stack. We continue to see elevated levels of cost inflation and have taken

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prudent steps to manage pricing, while having slightly wider price gaps than pre-pandemic. We have a good balance of growing market share while managing price, with both customers and shareholders in mind.

We continue to make strong progress in some of our newer higher-margin initiatives. Walmart Connect advertising experienced robust sales growth this year, with a strong pipeline of new advertisers and large growth opportunities ahead. In fact, the number of active advertisers using Walmart Connect grew more than 130% yearover-year. And about half of the ad sales came from automated channels in Q4, more than double last year. We expect Walmart Connect to continue to scale over the next few years, with plans to become a top 10 ad business in the mid-term.

Growing eCommerce Marketplace and WFS have been a priority over the past couple of years as we've invested to expand fulfillment capacity, introduce new services for sellers, and double the number of items available for customers. In fact, we expect to have over 200 million items in our eCommerce assortment by the end of the year. The expansion of WFS has also been a key unlock in bringing more sellers to Walmart's Marketplace.

Customers increasingly want home delivery. And we had a six-fold increase in delivery in the fourth quarter versus pre-pandemic levels. We continue expanding capabilities, including announcing the acceleration of InHome delivery to 30 million households by year-end.

We also announced our new fintech business, ONE, in January with the pending acquisitions of fintech platforms ONE Finance and Even.

SG&A expenses deleveraged 95 basis points, as increased wage costs were partially offset by strong sales and lower total COVID-related expenses year-over-year. Still, as I mentioned earlier, COVID leave costs were much higher than expected.

Operating income grew slightly, aided by strong margins as well as solid growth in membership and other income. Inventory increased about 28% overall, including higher cost of goods due to inflation, mix, and higher than normal in-transit shipments, reflecting continued efforts to improve in-stock.

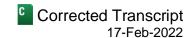
International sales were strong, up nearly 10% led by China, Mexico, and Flipkart, as seasonal events, omni growth, and good inventory position contributed to results. eCommerce sales in constant currency grew 21% on top of strong gains last year, with growth of more than 75% on a two-year stack. China comps increased nearly 20% in constant currency, with continued strength from Sam's Clubs as well as more than 90% growth in eCommerce sales. Comp sales in Mexico increased nearly 8% and grew faster than the market, according to ANTAD.

Flipkart had another good sales quarter, aided by strong holiday events and favorable trends in monthly active customers and users. We're also pleased with the strong growth of PhonePe, with TPV up more than 130% versus last year, with a current run rate of \$650 billion.

In Canada, comp sales were up 4.6%, led by in-store shopping, and comps increased more than 13% on a twoyear stack.

International adjusted operating income in constant currency increased nearly 3%, reflecting lower COVID costs, partly offset by a gross margin rate decrease related to higher sales penetration from Sam's China and eCommerce. For the full year, International adjusted operating income grew 12.7%, and we feel confident about our International business as we had into the new year.

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Sam's Club had another impressive quarter, with comps of 10.8% excluding fuel and tobacco, an increase of nearly 26% on a two-year stack. Transactions increased 7%, and ticket was up 3.2%. eCommerce sales grew 21%, and we expanded the rollout of delivery capabilities of digital orders to nearly all clubs during the quarter.

Sam's is leveraging Walmart's GoLocal last-mile delivery service to provide more convenience to members. Membership income was up more than 9%, with another record in member counts and strong Plus penetration. Operating income was up 41%, as higher fuel and membership income as well as strong expense leverage were partially offset by gross margin pressure from inflation and supply chain costs.

Now, let's turn to guidance. We feel very good about the underlying strength of the business and believe we can deliver full year growth in FY 2023 that aligns with the growth algorithm we discussed last year. As you saw in Q4, we're still challenged with increased costs related to COVID and supply chain disruptions. Our guidance assumes that we will see some relief from that as the year progresses and that the US consumer remains in a generally favorable economic position throughout the year. The comparisons against last year are unique, primarily due to the timing of international divestitures and US stimulus in FY 2022.

As a reminder, the divestitures of our businesses in the UK and Japan were completed near the end of the first quarter last year, contributing about \$5 billion in sales and about \$0.07 of EPS in Q1 FY 2022. Our guidance will be ex-divestitures.

We expect total company sales to increase about 4%, with Walmart US comp sales slightly above 3% for the year. Given the timing of stimulus overlaps, we expect about a 1% to 2% comp sales increase from Walmart US in the first quarter, followed by somewhat higher comp sales growth throughout the remainder of the year.

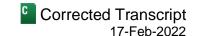
We expect FY 2023 total company operating income to increase at a rate slightly higher than sales growth and EPS to grow 5% to 6% versus FY 2022 adjusted EPS, due, in part, to our aggressive share repurchase program. The quarterly profit growth cadence is expected to be quite variable, due to last year's US stimulus as well as lapping wage investments initiated in February and September, 2021. As you would expect, the variability of the quarters looks less extreme when viewed on a two-year stack.

We expect Q1 operating income and EPS to be down low double digits to low teens as we cycle the stimulus effects from last year that resulted in nearly 30% operating income growth as well as increased wages this year. On a two-year stack, Q1 operating income would still be up a mid-teens percentage. Q2 and Q3 operating income and EPS are expected to increase at low to mid-single-digit rates, as year-over-year comparisons ease, due, in part, to the moderation of stimulus benefits last year.

We expect higher growth rates in the back half of the year as we fully cycle wage investments, resulting in fourth quarter operating income and EPS increasing by a high teens percentage. Q4 operating income will also benefit from some timing versus FY 2022, particularly in International as well as cycling elevated COVID leave costs in FY 2022.

Our effective tax rate is expected to increase to 25% to 26%, due primarily to earnings mix.

For the year, we expect gross margin rates to increase due to pricing, mix, and new business initiatives, although there will be variability quarter-to-quarter, as is usually the case. For the first time in a while, we expect some expense deleveraging as we continue to see elevated supply chain, wage and tech costs. We'll continue the



multiyear journey of accelerated capital investment focused on increasing fulfillment capacity, automation, and technology to enhance productivity.

FY 2022 CapEx was about \$13.1 billion lower than anticipated, due to timing of projects impacted by supply chain challenges. Due to that and continued investment in strategic priorities, we anticipate this year's CapEx being at the upper end of the guidance we gave last year of 2.5% to 3% of sales.

In closing, I'm really pleased with our FY 2022 results and very confident as I look to this year and to the future. The company is in an enviable position to serve customers and members and also to achieve our financial goals, benefiting shareholders.

Now, we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is from Steph Wissink with Jefferies. Please proceed with your question.

Stephanie Wissink

Analyst, Jefferies LLC

Thank you. Good morning, everyone. I'd like to double-click on one of the comments you made in your remarks regarding elevated levels of inflation. And I think you signaled that you are seeing slightly wider price gaps versus pre-pandemic. Can you maybe give us some sense of how much inflation you're observing real-time, how much those price gaps have widened? And then what your expectations are for the quarters as the year progresses? Thank you.

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Hey, Steph. Good morning. This is John with Walmart US. First, I just want to appreciate our teams for all they delivered in the last quarter. The \$105 billion sales number has been impressive, given all the challenges they have. And I just want to thank the teams for everything they've been through the last couple years.

When it comes to pricing, we really take a long term view on this. And we manage pricing for both customers and shareholders. We're constantly monitoring our price gaps to competitors, and we'll continue to do that as we move forward. And then, what we're seeing right now is not only gaps that we're proud of that are valuable for our customers, but we're also seeing the opportunity to increase some of our rollbacks in stores. And we're really proud of the team. We're seeing about the same number of rollbacks now that we had at the end of Q1 last year.

So while we have supply chain challenges and other costs coming through, the teams are doing a nice job managing mix and pricing and looking after both our customers and our shareholders.

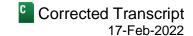
Operator: Our next question comes from the line of Bob Drbul with Guggenheim Securities.

Robert Drbul

Analyst, Guggenheim Securities LLC



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Hi. Good morning. Just a couple quick questions. The first one, really thanks for giving us the advertising piece. Can you just elaborate a little bit more just on the growth that you've experienced to get to the \$2 billion number and just how quickly you do expect that to ramp? And given the fact that you gave us the \$2 billion number, Doug, would you be willing to give us how many people have signed up for the Walmart+ membership?

C. Douglas McMillon

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

A

Bob, you got one, and you want both. That doesn't surprise me. I'll start with the advertising number, and John can add here. The business model is changing. I think that's the headline. We've got a business that's becoming increasingly digital. The eCommerce business, first-party, third-party is growing. It gives us the opportunity to grow advertising income. It's grown at a fast rate, and it's growing across markets.

The US is important in that number, but India, Mexico, and other markets are going to have growth there, too. And the margins are helpful. They help us keep prices low for customers, and they help us deliver the operating income number percentage. So we're excited about what the future looks like as it relates to the growth of the advertising business.

We're not going to share Walmart+ yet. I don't really want to have the company defined by one metric. And with subscriptions being such a topic these days, everybody gets really focused on that. Walmart is always going to be a business where you need to look across and see how the omni-channel business is playing out. There are going to be times when eCommerce grows faster than stores. And as we've seen recently, stores are attractive during certain periods of time.

Walmart+ is important. It helps us grow our eCommerce business. It helps us deepen the relationship with customers and have more data. And, at some point, we'll probably talk about that number. And, by the way, there are other types of memberships, not just in Sam's Club across the world, but in some of our other businesses, too, they are growing.

So I think there will probably be a number of membership type metrics over time that you'll want to keep an eye on, but I don't think it would be good if everybody got overly focused on Walmart+. Our ability to serve people with pickup and delivery has improved as we've made these investments. It's one of the reasons why we continue to tell you how much capacity we're growing to do that.

John R. Furner

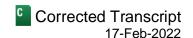
President & Chief Executve Officer, Walmart US, Walmart, Inc.



Yeah, Bob, this is John. And I'd add a couple things. First, I think the advertising business is a reflection of the momentum we have in total Walmart US. And I'm really proud of the way the team has helped position us to serve customers any way they want to be served, whether that's at home in their refrigerator, at their front door, at the curb, or in store.

And the Walmart Connect business specifically, the reason we named it Connect is we are connecting buyers, sellers, suppliers, and customers. And we have a unique opportunity to be able to help sellers and suppliers reach customers in a way that's effective for them, grow their business, and do it in a way that is positioned on top of an omni-retail platform.

So certainly excited about the growth. I'm excited about the capacity additions in-store and in Walmart Fulfillment Services. Those enable sellers to be able to transact more frequently with our customers. And that's really the key to the growth of advertising is have the large seller and supplier base that can reach our customer base.



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

question.

Karen Short

Analyst, Barclays Capital, Inc.

Hi. Thanks very much. So, Doug, I wanted to ask you a question. You've made the plane analogy in the past with respect to knowing when and where you want to land the plane, but there are moving parts to getting to the destination. So I wanted to just ask bigger picture, when you think about 2023 specifically, well, calendar 2022, where you think the biggest source of upside could be to landing the plane and then also where you would put the biggest sources of risks on landing.

C. Douglas McMillon

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

Thanks, Karen. I think the biggest sources of risk are external amidst been an unusual last year or two. And figuring out how you lap stimulus, what happens with inflation, both on the cost of goods side as well as on the operating side, will cause us to have to be good managers. But I think we've demonstrated over time that we have a lot of really good managers at Walmart.

In terms of upside, I'm excited about what's happening in our stores and clubs. We've got great momentum in Sam's. There's a lot to be excited about in International. India continues to be really exciting. Walmex is kind of going from strength to strength. The Sam's business in China is good. So I think that Sam's International can contribute.

And on the Walmart US side, John, you can jump in here, too, I think we've got an opportunity to continue to improve both stores and eCommerce. And the fact that we're now up to 170 million items for customers is exciting. And the way sellers are responding to fulfillment and seller services and that relationship is really encouraging.

So I think Marketplace is one of those areas where we can see growth, including that last-mile component that we're building out. I think that's exciting, too.

John R. Furner

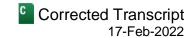
President & Chief Executve Officer, Walmart US, Walmart, Inc.

I do, too. And, Karen, I mentioned just a second ago, proud of the momentum and the positioning being an omniretailer, but also excited about the shape of the business model and how it's changing. Brett laid out last year, early, the growth algorithm and the way that the business model could change over time.

And those services that Doug just referenced for sellers, including fulfillment and Marketplace, last-mile, GoLocal, all these things help so many businesses reach customers in addition to just the Walmart business. And they all have an impact on the operating model, which I'm really quite excited about. And these are components that will help customers, number one. They'll help shareholders. And they'll help us position the way that we offer value to customers all across the country.

And GoLocal, we talked about the number of points that we have today. That's expanding. Our last-mile business is expanding. We'll have a fleet of electric vehicles coming online over the next couple years. So there's just a lot going on that is going to take a lot of friction out of customers' lives, help them stay in stock at home. And then,

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with the improvement in fundamentals over the next year, I'm also very excited about our ability to manage through whatever external forces that we see.

We've got a lot of experience doing this. We've got great teams that are ready for this, and the strategy is really clear.

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

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Hey. Good morning, everyone. My question is on guidance. In 2022, you beat your comp guidance and your EBIT guidance both by healthy amounts. If 2023 ends up being better than what you just guided, is it driven by sales, or is there a chance the margin can perform better within the 3%, given some of the alternative?

And then, just to clarify, Brett mentioned the Q4 EBIT growth for fiscal 2023. Is there any way you could unpack it a little? Because it's a big change and jump, but it seems like you're going to be lapping some hefty SG&A growth. And you said something about international laps, so just try to maybe – it's not as steep as it sounds, I think, if we look at some of the pieces.

Brett M. Biggs

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

Hey, Simeon. It's Brett. I'll kick off. I think a lot of what Doug and John just said is if we get to the end of this year and we've done better than we've laid out for guidance, I think it's a lot of what they just talked about. It's our new businesses that are higher margin continue to grow. Sales momentum continues. We assume, obviously, that it's going to continue with a 4% sales growth. It's a big number on top of what we've already done. So it could be sales-driven and it can continue to be margin-driven as well, as these new businesses develop, as our general merchandise business gets stronger, which helps with mix. It's all of those things.

And we always talk about there are so many levers that we can pull at different times when we need to. It's also all those levers that can actually play to our advantage in any given year and any given time. So I just feel good about the momentum of the business. I said this to [ph] Gordon (37:00), this morning. I'm as optimistic as I've ever been about the business and the shape of the business model.

To answer Q4 specifically, there's a couple things. There's some holiday timing in International. We also had some impacts of some impairments this quarter. Some of that was adjusted out. But it's those things, but also the costs. When you look at the supply chain costs and the COVID costs in Q4, that's a big change. And we do expect some abatement of costs over the year. When that happens, how that happens, obviously, is to be seen. But it's those things that help that Q4 operating income.

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

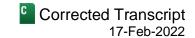
Michael Lasser

Analyst, UBS Securities LLC

Good morning. Thanks a lot more taking my question. Your customer base looks a lot like the overall US consumer. There is a lot of concern around the low to mid-income consumer, the outlook for that consumer this



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year, given the stimulus lap, the inflation, and other uncertainties. So how did you factor all of that in as you were planning the year ahead? You probably could have gotten away with citing something less than your algorithm excluding divestitures, so is there a risk that you have a recency bias where the business in January was good? And, hopefully, this doesn't come across as snarky, but do you think you have more visibility into the macro than the investment community or others? There's just a lot of uncertainty out there right now.

C. Douglas McMillon

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

A

Michael, this is Doug. I'll go first. As it relates to the 4% and greater than 4%, what we told you a year ago is that that is something we believe we can deliver or beat over time. And, as Brett told you, when we made that commitment and shared those numbers, there are going to be time periods that are higher and time periods that are lower. But over time, we think that's a really sound set of numbers to share. And we thought it was important to repeat that because we still have that confidence. And we have that confidence because of all the pieces that we have been talking about. The strategy is coming to life. The business model is changing.

As it relates to this year in particular, we've got opportunities to improve in-stock. We've got opportunities to improve store and club standards because of what happened with COVID leave. There's just upside. And there will definitely be challenges. We know that, for sure. But we just have these different opportunities to make choices to deliver the results. And we believe that it was important to repeat the number.

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.



Hey, Michael. Something that Doug said that's really important about improvement. One of the most fun parts of working at Walmart is having such a large team just every day get up and try to be better than they've been and run a better business, and I've enjoyed that for almost 30 years. But one of the things that's really important in your question is we serve really all income groups across all geographies in the US.

And last year, we saw growth amongst income groups and geographies. So I think that's a clear reflection of the number of choices that we offer customers. We offer customers an experience through Walmart.com and eCommerce. We offer customers pickup experiences. We offer in-store and just about everything in-between, including InHome delivery which will expand to a significant number of households, up to 30 million households, this year.

So I think our ability to serve all across is quite important going forward. And for the team this year, we'll be really focused on execution. And I know Sam's would say exactly the same thing. But across the geographies and income, we're well represented. And we're going to try really hard to deliver great execution for customers all across the year.

C. Douglas McMillon

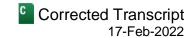
А

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

And, Michael, you started by saying that the Walmart US customer looks like the US population. And it does, to a really large degree. And so we'll serve everybody. And during periods of inflation like this, middle income families, lower middle income families, even wealthier families become more price-sensitive. And that's to our advantage.

So we have been through this before. And we run with inflation around the world all the time. Inflation is a different environment in the US right now than it has been in recent times, for sure. But we've been dealing with inflation in South America and Mexico and other places and just kind of understand what that looks like.

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

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning. Thanks for taking our question. You had mentioned improving in-stocks throughout the year. We were just wondering how you would categorize how Q4 ended up from an in-stock level and what areas could still benefit from improved inventory. And can you talk about any sequential improvements you may see in the supply chain and how you view the cadence of the supply chain challenges throughout the rest of 2022?

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Good morning, Kate. This is John. Let me talk about Q4, and then I'll come back to the supply chain. I think, in general, we were seeing really nice improvements in in-stock late in Q3, early Q4. We were happy with how the holiday season turned out, including the ability to deliver seasonal and hardlines across the quarter, which you saw.

A couple strengths that really stood out were the apparel business and our health and wellness business were both strong throughout the quarter. Those resulted – due to demand, those resulted in pretty decent sell-throughs. And then in January, with the effects of Omicron, we took a step back in in-store, in-stock and online, but what we're seeing right now is better flow-through all across the supply chain. You heard the increase in inventory, a large reflection of what is inbound. So we see recovery happening pretty quick. There are a couple categories in the store that you'll see some out-of-stocks in that are really national issues.

As far as the supply chain, we talked about it in Q3, there were some significant improvements in flow-through at ports, changing lead times, getting containers moved into the country, and that's all helped. But just a reminder. About two-thirds of what we sell is made, manufactured or assembled here in the United States, and we see growth across those categories as well.

So I think we'll see much better flow the next few weeks and months and get us into really good position as we lean into the first and second quarters.

Operator: Thank you. The next question is from the line of Chuck Grom with Gordan Haskett. Please proceed with your question.

Chuck Grom

Analyst, Gordon Haskett Research Advisors

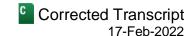
Hey, good morning. Congrats on a great year. And hats off, Brett, on a wonderful career at Walmart. My question is on the consumer again. And I guess I'm curious if you're seeing any noticeable changes in spending patterns by income cohorts in light of inflation, lap of stimulus. You talked about January being the best on a two-year basis, but just wondering if you could unpack it a little bit by income level.

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Hey, Chuck. This is John. I'd also echo congrats to Brett on a great career. Thanks for mentioning that.

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C. Douglas McMillon

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

He's not done yet.

Brett M. Biggs

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

I'm still here, so we'll chill on that today and come back to that later.

John R. Furner

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

But definitely has made a nice impact. Chuck, a couple things. We said a second ago, we need to serve the country broadly. We see the ability to serve all income groups. And things like private brand versus branded, we don't see any change at this point. We see strong demand. Private brand penetration is about flat.

So at this point, we see really strong demand and a customer who is in good shape with a strong balance sheet. So we're optimistic that the inventory pull-throughs that we have done and have in transit will get us in a great position to be able to serve customers as we get into this fiscal year.

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

Thanks for the sentiment, Chuck. Appreciate it.

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

Kelly Bania

Analyst, BMO Capital Markets Corp.

Hi. Good morning. Thanks for taking our questions, and I'll add my congratulations to you, Brett. Just two questions. One I guess similar question maybe that's been tried to ask, but there is some concerns going into the quarter about whether or not you could maintain this kind of earnings growth algorithm against the strong results in 2021. And so maybe just can you help us understand the underlying factors that enable you to grow on this higher base? You talked a little bit about Connect and the advertising business. Is there just underlying progress in eCommerce profitability? We don't talk about it the same way anymore, but just what do you think are those underlying drivers that help you maintain this level of growth?

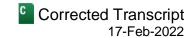
C. Douglas McMillon

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

Kelly, we're all wanting to answer that, so I'll try to be brief. The business model, the income statement is just changing shape, and I think that kind of the headlines are the company is becoming more digital. It is starting to become more automated and over time will become even more automated. And when you look at the gross margin number, we can manage it.

Some of you like to watch gross margin, as I guess makes sense, quarter-to-quarter. As Brett was reminding us yesterday, you can drive yourself crazy doing that. Gross margin over time, I mean, look at our track record. We can manage gross margin.

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Now, then below gross margin, we've got productivity opportunities. And technology, whether it's an app in a store for an associate on the sales floor or robotics in a distribution center, creates an opportunity for more productivity over time. That is helpful. And then, you get to these other businesses, like the advertising business, the last-mile delivery business, Fulfillment Services for eCommerce, the Marketplace itself, and these are helpful businesses from a margin point of view. And as they become a larger percent to total, the shape of the income statement changes. And our confidence in that, not only in the US, but around the world in the markets we operate in, is high. And so that's why you sense that confidence from us.

Brett, do you want to go next?

Brett M. Biggs

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

No. I think you said it well. You and John have addressed it.

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

I'd just add a couple things there. First, having digital relationships with customers is so important. More and more, we fulfill from stores. The stores are stores, but they also act as fulfillment centers, as we said earlier. So this ability to interact with customers digitally is important. Our workforce is becoming more digital. We've got over 1 million associates who have a device in their hands from the minute they walk in until they leave. So that's saving them time.

And then, finally, I'd just reiterate what Doug mentioned, is automation in supply chain and using automation to augment the things that our associates don't want to spend as much time doing so they can spend the time on the things that are value-added, like in-stock and availability.

And I would just close by saying our optimism in improvements this year is we've got a lot of room to improve in in-stock and customer ability that we've seen over the last couple years. We're really proud of the growth. We know we could have done a lot more, had we had the inventory position at the right time and the right place. So I'm really optimistic that there is upside to top line.

C. Douglas McMillon

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

You mentioned eCommerce. We're continuing to manage contribution profit with eCommerce business as a stand-alone vertical. And apparel and home are important, and we've seen growth there over the last couple of years. And then the Marketplace helps. And the Marketplace has been scaling faster, as you can see in the 170 million number.

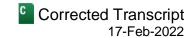
Operator: Our next question comes from the line of Oliver Chen with Cowen and Company. Please proceed with your question.

Oliver Chen

Analyst, Cowen and Company

Hi. Thank you. Regarding Walmart as an ecosystem, what are your thoughts on future shopping experiences, particularly as we see consumers [technical difficulty] (49:05-49:12). And in your prepared remarks, you spoke about fintech a few times. So it would be great to hear from you how that may integrate your broader strategy in

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the shopping experience as well as on consumerization of healthcare. You're a great provider of healthcare in different ways across communities. Thank you.

C. Douglas McMillon

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

Oliver, you covered a lot there, and your voice was breaking up a bit. But we think we got it.

On the future of shopping, it's really exciting. There are so many things that we can imagine. One of our challenges is just setting priorities and not trying to do too much. But we've got obviously a great strength in stores, and I think that that's clear. The pickup business has been terrific in the US for many years now. Delivery is growing around the world.

This delivery that's happening that's unattended is exciting. And this Walmart InHome business, which leads towards just keeping people in stock, and they don't have to really think about buying the items they buy all the time. And we then use that data to serve our impulse items will be part of that future. We do think that social commerce around the world and what happens with wearables and AR and mixed reality will be part of our future, and we're obviously thinking about that and working on that.

And this key, as I mentioned in my remarks, of stitching it together, whether it's fintech or healthcare, and, John, you should jump in on future of shopping, fintech and healthcare, too. The way you stitch that together, so that one business becomes the default for the other is the magic of it. If we can really become great from a financial services point of view, we can take out friction and cost for customers, make it more delightful to transact with us.

They'll even not even really think about transacting, John, as we change the shopping experience as it relates to checkouts in the future as well as on our app and in other digital forms.

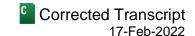
John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Yeah. Oliver, on the consumer, I'll just start there, I see the same way Doug is, very exciting to see some of the changes. Because the consumer, which, historically, in the past, we might have thought of as a consumer fits in a segment, consumers really are in a segment depending on the day of the week or the hour of the day. Consumers sometimes need things right away, which we can do in under two hours with Express Delivery. They may need a pickup order in a couple days, or they may need something for a kid's birthday party this weekend. And we can work with all of those, and that's really exciting.

On fintech and healthcare, specifically, those are on our flywheel for important reasons. One, in fintech, we're excited about the potential acquisitions that we mentioned, pending regulatory approval. But we're looking for modern innovative ways to offer customers the ability to access affordable financial solutions and financial products. A considerable number of customers, including middle income customers, are underserved when it comes to financial services. And we believe that we have a role that can help there and we can do it in a way that's digital.

And then, just going on to health and wellness, it's a big question with all these things that you have in there. But the health business was our fastest growing comp business in Q4. We're excited about continuing to be able to serve customers at the pharmacy. Our pharmacists and pharmacy techs have done a tremendous job this last year in serving customers. And we're seeing with the addition of things like our telehealth company and other services, the ability for our pharmacists and tech to practice at the top of their licenses and really help customers live better.



So you put all this together, all of these opportunities really do position the company to live through its purpose. And that's to help (sic) customers' save money so they can live better. And the combination of retail, financial services, and health and wellness do that really well.

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

Ben Bienvenu

Analyst, Stephens, Inc.

Hey, thanks. Good morning. There's been a lot of great questions, so I want to ask a more specific one. You mentioned some places to roll back prices. I'm curious. Is that because you see less inflation in those categories? I suspect not. Or is it because you see the opportunity for that to really resonate with the consumer? And within that idea, are there categories, places where you're seeing a change in consumer behavior, whether it's trading down or otherwise, that you think creates a unique opportunity for you all?

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Hey, Ben. It's John. Thanks for the question. On the rollbacks, this is all about making sure the customers see value at a time when prices are rising in so many parts of the economy, being able to offer a customer value and fight inflation is what we do. It's what our merchants do. And that will continue. As I said earlier, the count of rollbacks today is up pretty significantly from the end of the third quarter and about to where it was at the end of the first quarter last year.

So I'd say – I was in the store across the street earlier this morning. And we've got rollbacks in consumer electronics and parts of dry grocery. And those values really matter as customers become more concerned and they think more about inflationary pressures. So we'll continue to be an everyday low price retailer. That is our platform. We want to offer great values with price gaps that deliver for shareholders as well each and every day that we operate. But we'll make sure that customers see value in key categories as we get into this year.

Operator: Thank you. The next question is from the line of Scot Ciccarelli with Truist. Please proceed with your question.

Scot Ciccarelli

Analyst, Truist Securities, Inc.

Good morning, everyone. I guess a bit of a follow-up on that question. As you guys hold down prices, despite higher procurement cost to drive price gaps, are you seeing any kind of competitive response? Or do you find you're almost competing against yourself because other companies just can't hold down prices the way you can?

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

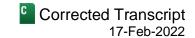
Scot – no, go ahead.

C. Douglas McMillon

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

Around the world, Scot, retailers are all having to manage this. And we talk about price gaps, our price leadership position for a reason, because prices are relative. And it's more fluid in an inflationary environment like this. So we

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have to spend more of our time paying attention to that. We do mix across categories. We think about things like opening price points and protecting for a lower income family some of the things that they need from a staples point of view.

And then, as John mentioned, we use rollbacks to communicate not only the reality of prices are coming down in some places, but the emotion or perception we want customers to have about us being there for them and earning their trust during a period of time like this.

So I wouldn't say that we're unique in having to work through that. Of course, everybody is. But we are likely a bit unique with the depth of experience that we have and the talent of our team to be able to manage it and our long-standing supplier relationships and the way we work with them to try and help them get through this situation as well. The amount of communication between us and suppliers is always high. It's particularly high right now.

John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Yeah, it is. And I'd just refer to things that we said in the past. A merchant here has so many levers between mix and categories, what they feature on the home page. This morning at the top of the home page is a section on rollbacks. They can change that. They can change monitors. They can change features. There are just so many things they can do to manage mix over time that it puts our team into a good position to do this.

We've got experienced people who know how to do this. And we have a number of associates here in the US that worked in other markets where inflation is quite common. And that's really been helpful this last year to have that expertise inside the business.

Operator: Thank you. Our next question is from the line of Christopher Horvers with JPMorgan. Please proceed with your question.

Christopher Horvers

Analyst, JPMorgan Securities LLC

Thanks. Good morning, everybody. I wanted to take a shot at some of the comp questions that have been asked prior. You talked about 1% and 2% in the US in the first quarter, sort of 3s in 2Q and 3Q. That would suggest you accelerate roughly 4% in the fourth quarter. So I guess my question is you'll be going against sort of peak food at home inflation, some elevated SNAP benefits. So I want to get into sort of how you're thinking about getting there. Do you expect any deflation to occur? Do you expect share gains in grocery to accelerate as some of your customer base sort of seeks out more value? And then embedded in that, is there accelerated growth in general merchandise as you fill out the assortment and the fulfillment options?

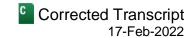
John R. Furner

President & Chief Executve Officer, Walmart US, Walmart, Inc.

Hey, Christopher, I'll say a couple things regarding the question. A lot of the phasing that are in the forecasts definitely include strong customer demand. They include better inventory positions. We talked about inventory in total being up 28%, with a considerable amount of that that is in transit on the way, which does include general merchandise, but also as a reflection of what we believe will be better in-stock positions in food and consumables.

The quarterly phasing also has the lapping of stimulus last year. And the month we're in, we had a large ice storm last year in Texas. And then in the months of March and April, we had stimulus that was significant. So it does reflect that across the quarters. And I don't think I'd add anything else to that, Brett, unless you have anything.

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Brett M. Biggs

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

No, I'd say, Chris, as you can imagine, the quarterly phasing is more challenging than normal, just given the comparisons that we're up against. But I think, as John said, there's a number of different things during the year that make us feel confident in the total year. And we've given you as good as we feel like we can today on where we think it will stack up for the quarters. But there's going to be some quarterly variability, certainly, during the year.

Operator: Thank you. We have reached the end of the question-and-answer session. And I'll now turn the call over to Doug McMillon for closing remarks.

C. Douglas McMillon

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

Thanks again for your time and attention.

I'd just summarize by saying it's great to have momentum in all three segments as we start this year. I think it's clear that we're changing to serve customers and members in the way that they want to be served. And having stores and an eCommerce business, pickup, delivery, fulfillment centers, a marketplace, all of those things are helpful as it relates to that. And the great thing about it is the way that we're building these and designing them is that the company can grow earnings and grow the bottom line while we're doing it.

The business model changes. And it enables the customer and member to benefit and our business to benefit at the same time. So I'm excited about the short term momentum and looking forward to the year. Thank you, all.

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

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