Walmart
FY '26 Buyside Investor Call
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Presenters
Steph Wissink - Senior Vice President, Investor Relations
John David Rainey - Chief Financial Officer
Kary Brunner - Senior Director, Investor Relations
Daniel Danker - EVP AI Acceleration and Product Design

Q&A Participants
Jamie Barker - Eden Rock Advisors
Rupesh Parikh - Oppenheimer

Operator
Greetings. Welcome to Walmart's Third Quarter Fiscal Year 2026 Buy Side Investor Call. At this time, all participants will be in listen-only mode. If anyone today should require operator assistance during the conference, please press star-zero from your telephone keypad. Please note the conference is being recorded.

I'll now hand the conference over to Steph Wissink, Senior Vice President, Investor Relations. Thank you, Steph. You may begin.

Steph Wissink
Thanks, Rob. Good morning, everyone. Today's call is being recorded, and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements.

These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC. Please review our press release and slide presentation that we posted yesterday to our website for a cautionary statement regarding forward-looking statements, as well as our entire safe harbor statement and non-GAAP reconciliations, on our website.

That includes -- concludes my introduction. I'm going to turn it over to Jamie.

Jamie Barker
Good morning, everyone. I'm Jamie Barker, the CEO of Eden Rock Advisors. I, in partnership with the Oppenheimer team, produced today's call, which Oppenheimer compensates me for. I in turn donate my compensation to several veteran charities, including Stop Solider Suicide, the Senator Elizabeth Dole Foundation, Handy Heroes where we support the caregivers of the wounded, and the Special Ops Foundation Vigilant Torch.

I do this work in honor and memory of my many friends killed in the September 11th terrorist attacks, and I give back to the military for all that to prevent another 9/11. I can't do what I do without the support of the management teams like John David, Steph, and Kary, and corporations like Walmart. As November is the month we celebrate Veterans Day, the timing of this meeting is particularly important.

So, on behalf of the veteran initiatives, thank you for the privilege of your time today. John David, thank you for your continued support.

Rupesh Parikh
Thanks, Jamie. So, good afternoon, everyone. My name is Rupesh Parikh. I'm the senior analyst at Oppenheimer. So, thank you all for joining us today. We are very excited to have with us from Walmart EVP and CFO John David Rainey, Steph Wissink, SVP, head of Investor Relations, and Kary Brunner, Senior Director, Investor Relations.

We also have with us a special guest from Walmart's executive team, EVP AI Acceleration and Product Design, Daniel Danker. In this role, Daniel helped to accelerate the company's AI transformation efforts and leads all product management and design across the enterprise. Daniel joined Walmart from Instacart, where he most recently served as chief product officer and head of online grocery.

So, the format to today's call will be a fireside chat with a number of questions I've prepared. We plan to go until 12:45 p.m. Eastern. So, I have several questions investors have asked me to follow up related to yesterday's release, but before we jump in, would love to first hear what stood out to you about this quarter. Clearly, e-commerce momentum remains bright spot.

John David Rainey
Rupesh, this is John David. Thank you for hosting this call for us. I'd like to say a couple comments first. I just want to thank Jamie for the work that he does, and we're appreciative of being able to partner with him in his efforts.

We actually, in the room today, have a couple Walmart veteran -- or veterans that are Walmart associates. It's worth noting that, since 2013, Walmart has hired half a million veterans in to become associates here. So, very proud of what we've done thus far and the continued efforts that we make to support that group.

Also glad to have Daniel here. We thought this time, given some of the recent announcements around OpenAI, it'd be great to have his perspective on things. We're glad to have him on the team. He's already making an impact.

So, on e-commerce, what stood out to me really was the consistency across all of our markets. We saw north of 20% growth in each segment. I know there tends to be a lot of focus on the U.S.

segment, but we're making great strides internationally, great strides at Sam's. And so, those were things that I think were notable.

We've talked a lot about Marketplace too for some period of time. And I think, particularly in this environment where you're seeing GM, general merchandise, be pressured because wallets are being stretched, we had categories that grew north of 40%, like automotive, toys, fashion, I mean, and I can go down the list. And so, I just think it really shows that our broader assortment, combined with our value proposition that is both low prices and convenience, is really resonating with customers.

Rupesh Parikh
Great. And now I'll dive into a few questions we've been getting post your report. In the U.S. business, grocery comps decelerated to the low single digits from the mid single-digit pace we've seen for a while. Should we simply think about this as a temporary impact, given Q3 specific headwinds such as egg deflation, forced reg ops, etc.? Any more color you can provide here?

John David Rainey
Earlier in this year, I believe eggs were something like 90% inflated. They're still inflated, but not at that rate. And so, that's taken a little bit of pressure off there.

But remember, Rupesh, we also said that we're going to play offense, and we have over 7,000 rollbacks in place right now. We're seeing customers respond. We probably have talked about our Thanksgiving basket for 10 people that's at $40.00, a 25% discount to last year. And so, we know that when we're aggressive in these areas that we -- we're seeing those share gains.

And I think importantly, in contrast to years back, we're retaining the share gains. So, people are coming to us and they're seeing a very different Walmart, and what it provides with both value and convenience. And we're seeing a lot of retention around that.

But we've been, you know, probably a little more aggressive on the price side, and there have been some one-off items like eggs that have influenced that. We feel really good, though, about the offering and going into this fourth quarter.

Rupesh Parikh
Rupesh, it's Steph. I would just add I wouldn't want you to read too much into the linguistics around this. From mid single-digit to low single-digit may appear like a significant deceleration. It wasn't a significant deceleration. So, based on the definition of how we describe low single versus mid-single, you can think of this as a very modest slip from the low end of the mid-single to the upper end of low single.

John David Rainey

Yeah, it's a good point. And I would characterize our business right now as just very consistent. We're not seeing any sharp changes, certainly not to the negative in any categories or in any segments of our business.

Rupesh Parikh
Great. And then another area I want to cover is just pharmacy. So, on the call you mentioned a potential pharmacy headwind in January related to the maximum fair pricing legislation. Any additional color you might add here? Is this essentially a four quarter headwind until lapped?

John David Rainey
Yes, the maximum fair pricing goes into effect in January. I think that will affect about 10 drugs. I'm -- I think some of that is still to be determined. I know there's at least four. These are branded drugs that tend to have a lower margin. So, the way to think about this is impacting the top line but not the bottom line. It won't have any appreciable impact on gross profit.

You are correct, Rupesh, in that we would expect this to persist for each of the four quarters next year until we begin to lap that. Tough for me to try to quantify that right now. You know, health and wellness has been one of the areas of our business that has had stronger comps, both because of GLP-1s but also just because of our expanded offering there with pharmacy delivery and things like that.

So, it's not going to dramatically change the overall U.S. comp. But it will be something that, at least for January, as you -- as we look at the 4Q print, will have, you know, some slight impact.

Steph Wissink
Rupesh, we wanted to call it out too. We know a number of you track high-frequency data, looking out weekly, monthly credit card/debit card data. This could show up in some of those panels. So, just wanted to make sure there was an awareness.

And to John David's point, when we step back and look at it, it's not going to be a dramatic impact to the comp at the segment level, or certainly not the growth rate at the enterprise level. So, it's all factored into the guidance that we provided for the fourth quarter.

Kary Brunner
It's probably worth mentioning that health and wellness is about 11% to 12% of our business -- overall U.S. business. So, take that into context.

John David Rainey
Yeah, that's -- thank you. Yeah.

Rupesh Parikh
Okay, great. The last area I wanted to cover post your report, just Q4 guidance. So, I think it could be helpful if you could unpack for us some of the key underlying drivers of the Q4 outlook,

particularly the below the line items driving a disconnect between the 8% to 11% constant currency operating income growth and then the 2% to 9% implied EPS growth expectations for the quarter.

John David Rainey
The biggest single item there, last year we had some discrete tax items that were a benefit to us that we're lapping. Keep in mind taxes, there's a lot of things that go into that quarter to quarter, and it's not always linear with the income that we're reporting. So, that's the biggest factor, Rupesh.

Overall, the core business is -- you can see from the implied guidance is really strong. I mean, we're talking about revenue growth at the top end of our guidance almost close to 5% and operating income at the top end of our guidance at 11%. That demonstrates the core earnings power of the business, how our business is changing as we're growing some of these higher-margin parts of our business and are having more than outsized impact on our bottom line.

I -- I'll add too, I know in the backdrop of a lot of the other retailer announcements this week, there's a raft -- it's fair to say maybe a heightened area of concern around consumer health. And certainly, there have been some macro indicators that have indicated as much. But it still feels pretty consistent for us, and we're guiding the top line in a range into 4Q which is pretty similar to what we've seen this year.

So, hopefully that reflects how we're thinking about this. I don't want to be alarmist on the consumer health right now. We did indicate that, in the low income cohorts, there's been a slight moderation. And of course, as you might expect, with the first couple weeks of November and the lapse of SNAP benefits, that had some impact. But overall, if I were to characterize, you know, what's going on in the environment, I would say it's mostly consistent.

Steph Wissink
Rupesh, it's Steph. I would just help to bridge from Q3 to Q4. We had a very large seasonal events in our India business, Flipkart's Big Billion Days. That was a benefit to sales growth in the third quarter. So, it's not a deceleration if you look at it quarter to quarter. It's really the timing of that seasonal event in our international business. That has a reversal effect in the operating income. It's a headwind in Q3 and a benefit in the international segment in Q4.

So, as you're building your models, think of that international segment influencing the top line of the enterprise and the bottom line when you look at Q3 to Q4. When you step back and look at it on a semester basis, you won't notice there's that pronounced shift quarter to quarter. But that is something that, in our international portfolio, the timing of seasonal events can have pretty significant influence over the growth in the operating income growth within that line item specifically.

Rupesh Parikh

Very helpful color. So, now shifting to some more strategic questions, so, John David, the e-commerce delivery backdrop continues to rapidly evolve, with seemingly new announcements daily applying to expanding coverage, announcing new partnerships. At Walmart U.S., we've seen major progress in increasing the same day delivery coverage to I believe now around 95% or so of the U.S. population. How do you feel about Walmart's U.S. position today on the delivery front in light of recent competitive developments?

John David Rainey
Sure. I'll start, and Daniel might want to jump in here too given his experience prior to Walmart. But we're really pleased with the progress that we've made. To be able to serve 95% of America in less than three hours is, I think, pretty special when you consider the reach that we have and the value proposition.

We've made a lot of progress there. We tend to talk about that progress in terms of reach and expanded catchment area, but we're also doing it much more economically. We've cut our shipping costs in half over the last two years. So, this allows us to apply EDLC not only to the merchandise that we sell, but also the convenience that we provide.

And I said yesterday I think sometimes there's this notion of perhaps there being a trade-off between value and convenience. And I think that's a false choice at Walmart. We can give you both. We can provide affordable convenience for all the products that you want to buy at the prices that you want. And when you couple that with consistently strong execution, I think that's why you see us gaining share.

On membership in particular, our membership income grew 17% this quarter. And we mentioned that it was one of -- it was the strongest quarter for net new adds that we've had. I think over the next several years, membership is going to be an increasingly important part of our financial profile. But I also -- and this might sound a little provocative, but in some ways I think it's a little bit of an output metric.

Like, if we get the inputs right, meaning consistently strong execution and providing value for that membership, then the membership income's going to follow. And I haven't focused as much -- or emphasized this, I should say, as much over the past couple years because I've said that we need to get some of the basics right. We need to do a better job at providing that value proposition that our members and customers are willing to pay for.

You are starting to see that happen. And so, this flywheel begins to take affect. And I truly believe, and this is -- also may be a provocative statement, but that the Walmart+ membership program should be the most essential membership for anyone in the United States. And you're seeing that that offering's -- like the OnePay credit card, that offers 5% back for someone that has a Walmart+ membership.

It's almost as if you're shopping with us in the wrong way if you don't have that. And that will become -- we're seeing really encouraging early signs here, but that could likely become one of the largest acquisition channels for our Walmart+ membership.

Steph Wissink
Rupesh, to build on that, one of the single biggest reasons that Walmart+ members renew is delivery. And as we see our competitive set change and use third-party delivery fulfillment partners, the concept of price gap really starts to change. When you look at price gaps, historically, we've been using a shelf-for-shelf price gap comparison, but on a fully delivered basis, when you think about the fees that get layered on top of shelf pricing, with our competitors, we know we can deliver faster. We know we can deliver better and cheaper, and when we mean cheaper and more value, that becomes even more exaggerated and pronounced when a competitor uses a third-party fulfillment partner.

So we're really encouraged by how not only members, but even just non-member customers are starting to see this new value proposition come to light and the value spread on a fully delivered basket of food and general merchandise through the door is becoming increasingly pronounced.

Daniel Danker
If you look at this through the lens of a customer, there's a really great customer value prop that is very differentiated right now. It takes the form of the intersection of really broad assortment delivered very, very quickly, often in under an hour, well under an hour, and at amazing prices, because there's no markups on these prices. The items are the same price online and delivered to your door as they are when you shop them in the store. And that intersection creates a really valuable customer experience, but it also, as a result, has driven up volume and density.

So the order volume that we get then translates into far more efficiency to fulfill those orders than we would have otherwise. And so it creates a very positive feedback loop where the efficiency that we get from the density of orders then translates into a more cost-effective experience for customers and a faster delivery for customers. Often, we're delivering multiple orders at the same time to multiple people in the same neighborhood, and so they get their order more quickly, and we're able to deliver it efficiently.

Rupesh Parikh
Great. And just on membership, so you guys did see, I think, a record quarter of net ads. Was your team at all surprised by the acceleration you saw in Q3 on Walmart+?

John David Rainey
The results came in better than what we expected, but we also had a targeted program within the quarter to accelerate some membership. So we did expect this to be more pronounced uplift and net new ads this quarter.

Rupesh Parikh

Great. So switching to the topic everyone cares about just AI. So with Daniel joining us today, I'm now going to shift to a few AI related questions. So last month, Walmart announced a partnership with Open AI. So first, maybe you can talk about this partnership, what it brings to Walmart, and then how we should think about the incremental CapEx investments associated with it. And then ultimately, what do you want us to take away from this announcement?

Daniel Danker
Yeah, this is Daniel. The core part of this partnership is Walmart and Sam's Club powering a commerce experience that begins inside of ChatGPT. Now, if we put a customer lens on this, many customer problems begin with what are search-like journeys, but can end in a commerce experience. And I want to give you a couple of examples of what I mean here. If you're planning a camping trip and you go to ChatGPT, you might not know where to go. You might not even know the time of year that you'll be going. So that experience begins in a conversational journey around a hypothetical camping trip, and yet that ends in a journey where you will be buying supplies for that camping trip, a lantern, tent, food, etc.

Another example, you might go to chat GPT and start a conversation around how to get a wine stain out of your carpet, but that conversation might end with a product that you'll order from us to get that wine stain out. And that's what I mean, these journeys begin in a conversational experience that might resemble more of what you would have started in a search box, but because we're able to power a commerce experience there, it ends in a Walmart or Sam's Club power buy box. And that's what gets us excited about that, it's powering these commerce journeys that might not have even begun in a commerce mindset.

John David Rainey
Yeah. And on CapEx, Rupesh, let me address maybe a broader question that we got a couple times yes yesterday, and you may have heard on the call. We were even asked, with John taking over for Doug, does that mean that we're going to have some kind of CapEx bow [ph] wave or something like that, and that's not the case. I want to be real clear about that, so I don't want anyone to expect that the strategy that we've had, and in particular as it pertains to capital allocation, is going to be a departure from what we've been doing over the last several years.

That said, I've been consistent with what I'm about to say. I think given where we are in this AI journey right now, we're probably underestimating what we're going to spend on AI. I think we're also underestimating the benefits from it. But for us, we're not a hyperscaler. We're not going to be going and putting in multibillion-dollar data centers or things like that. It's almost as akin to in financial services being an asset light model if you're an issuer, where you're not underwriting things on your balance sheet.

We have the ability to partner with the likes of some of these hyperscalers that allow us to use the best of their assets and couple it with the best of our assets. And the announcement with Open AI, we're bringing our data and fulfillment capabilities to bear. They're bringing their technology to bear. And I'm sure Daniel will talk more about that later, but there's not going to

be some, I think, enormous bow wave of CapEx related to AI or anything else that's not already contemplated in the forward guidance that we've given.

Rupesh Parikh
Great. And then second, I'll keep this more open-ended. What are one or two of the other big AI applications or efforts you're working on at Walmart that you're most excited about as we look out the next few years?

Daniel Danker
Well, you know, it's tempting to start with the app and the customer, but I actually think it's valuable to maybe start upstream of the app, because we're using AI to deliver customer value by automating our entire supply chain, and this takes the form of automated fulfillment and distribution centers and AI powering the logic behind the transportation network and all parts of that end-to-end supply chain, and this delivers value to customers in three really important ways.

First, the cost savings that we're able to derive from this automation get delivered back to customers in the form of lower prices. But there's another element to it, which is that those savings also translate into faster speed. This automation enables us to fulfill more orders more quickly, and it takes the form of better assortment through the eyes of the customer, because we're using AI to figure out which products, and anticipate which products customers are going to be buying in each location, and get those products to those customers or to those stores more efficiently and in a more predicted way.

So the customer ends up getting better assortment at better prices and what feels like much faster speeds, because we've already forward-deployed products to the places where customers are going to be shopping before they even shop them. So that's a really important part of how we're deploying AI upstream. Now, when we get to the app itself, there's a couple things that we're really focused on. One is we're automating the repetitive tasks so that you spend less time shopping for the things that you buy every single week, because they're on repeat with us. But that time that you get back creates the space for us to shift toward an experience that's much more oriented around inspiration.

It's deeply personal, but it will also be much more immersive. It will live up to the kind of immersive experience that you have when you shop in our stores. So you can see that there's both a behind-the-scenes kind of supply chain side of how we're deploying AI, but also applications that are very consumer-facing, to focus on giving customers time back in their lives on the repetitive aspect, and then shifting that attention to the more inspiration and immersive part of the journey.

Steph Wissink
Rupesh, I would complement this idea of growth, faster growth at a lower cost, with optimization and productivity and deployment of AI and AI agents across many of our functional tasks. And our CTO and the team are leading that effort to drive adoption and utilization of AI-based

technologies, and that could be in the field, certainly is happening across headquarters, but you're going to see more and more of this people, plus tech logic coming through, regardless of where you are within our organization. So making sure that we're putting the right tech in the right people's hands to do more with the same or more with less.

Rupesh Parikh
Very helpful color. And then finally, there are some concerns for investors on how agentic AI could hurt the growth profile of advertising. How would you respond to this?

Daniel Danker
We believe that our ads business has a lot of room to run, and we've talked about it being a pretty major contributor to profit growth. I want to maybe unpack why, because I think that AI actually stands to help us, and even agentic commerce stands to help us serve not only customers, but brands in a more meaningful way than we've been able to do in the past. Going back to maybe some of what we talked about earlier, people love to shop, but today, a lot of that time is spent on repeating the same tasks of buying the same items every single week, and that isn't where we want most of our customers time spent. It's also not where advertisers are most excited.

And when we think about shifting that time away from the repetitive tasks toward more of the inspiration, that inspiration is not just a very occasional thing, it's actually a very mainstream experience that will happen around every day journeys that start with things like, what should I pack for my very picky kids lunchbox, what should we make for dinner, what clothes should I be getting for my kids as they're outgrowing the clothes they've been wearing? These are all the kinds of experiences where we can match customers with brands and advertisers by broadening the set of occasions that they're shopping, and shifting to the kinds of things that brands also care a lot about, which is reaching customers that are not already purchasing their products.

And so there's a great matchmaking exercise that we can do there, in an agentic journey, in an AI-powered very personalized journey that builds on the fact that people love to shop. It's the shift of attention away from the repetitive and shift of effort from the repetitive to the inspiration that opens the door for, I think, better customer journeys, but also better advertising journeys.

Rupesh Parikh
Thank you. Great color there. Now shifting back to our total revenue streams, we did touch on membership. And in your last quarter, advertising and membership fees represented about one-third of your consolidated operating income. So I just want to maybe just touch on advertising. So it grew north of 30% in the US, ex Vizio, 34% in the international. So curious, what inning will you characterize your efforts here? And then, how should we think about some of the bigger opportunities in intermediate term to sustain the momentum?

John David Rainey
If I were to pick an inning, I would probably say third or fourth. You think that's close, Daniel?

Daniel Danker
Probably.

John David Rainey
Yeah. I think we've got so much more that we can do to better serve advertisements to our existing customer base, but then we can also grow the TAM here too, by growing the GMV that we have. So I think that's a that's a big opportunity. We tend to focus a lot on the US, because perhaps it's more mature overall. But I think an underappreciated opportunity is international, whether we're talking about Canada, Mexico and India and China as well. India stands out to me because you have Flipkart, that has the largest marketplace there, and very much is the type of commerce experience that lends itself to advertising.

You also have Phone Pay. Phone Pay has 300 million monthly active users, nothing to thumb your nose at and they're experimenting with different type of commerce opportunities that may lend itself to advertising as well. So I think we have a ton of opportunity. Within the US, the thing that stands out is the Vizio acquisition. We continue to be very excited about that acquisition, and think that it really gives us a new opportunity to provide a different channel for connecting with our customers.

So today, in the experiences that Daniel just described, we serve up endemic advertising where we're advertising for a product that we sell, but by having that relationship with the customer after they buy the TV and being able to influence ads that they're seeing while streaming experiences, you have the ability to go into non-endemic advertising, so advertising for Ford F150, or something like that, products that we don't sell, and that's a big opportunity for us as well.

Anything you'd add to that, Daniel?

Daniel Danker
The only thing I'd add is that we're also expanding our assortment hugely by growing the 3P marketplace, and it's kind of the middle ground between what you're talking about endemic and non-endemic, is also products that sellers are putting on our marketplace, which means that customers are coming to us for more and more shopping occasions, and it very quickly grows the aperture on the number of brands that we can bring to customers. So there's a couple different dimensions there happening at the same time.

Rupesh Parikh
Great. Now I'm going to switch to international and Sam's club. So we've seen strong momentum continue in the international segment, so I wanted to touch on two of your faster growing markets. So let's start with India. So would love to hear more about the growth you saw at the big billion days event, and how Flipkart sustains the momentum going forward in that market.

John David Rainey

Steph, you want to take that?

Steph Wissink
Yeah, I think, Rupesh, that's a great question because Flipkart has been building more and more capabilities, and as a Marketplace provider, there's also a fashion marketplace that they own called Myntra, as well. And both have seen tremendous growth. And I think BBD is really the capstone event that they host every year that demonstrates, not only the extent of their catalog, the proximity to their customer, but their speed.

And it almost feels like there's a little bit of a horse race going on internally between the US segment and Flipkart. Flipkart's beating the US segment delivery times by a minute. I think the fastest US was a four minutes; fastest delivery for Flipkart this year was three minutes. So it's almost warping time in terms of the idea of having these depots close to the customer and being able to almost instantaneously react to their mission or their need or whatever it is they're looking for, and we've seen some really strong progress there.

In addition, I would call out for Flipkart, they have been investing in -- you almost could think about it as opening price point portion of their catalog, which is also more everyday essentials and necessities. So that drives frequency and customer adoption and fluency of their value proposition. So really encouraged by what we're seeing from the Flipkart business.

I would also just call out that, while the business is still losing money, it's losing less. So in addition to the growth, we're seeing improvement in the loss ratio and really encouraged by the directionality within the Flipkart business.

Rupesh Parikh
And then China, robust top line growth continued into Q3. What do you view as the key drivers here and what are your thoughts on the sustainability of the momentum?

John David Rainey
On China? Yeah, so China is -- it's a relatively small part of our business today when you think about the $700 billion that we do. It's also probably the part of our business that, when you think about the opportunity to just have a step change and think 2, 3, 4, 5, maybe even 10x, like I think that kind of opportunity presents itself there.

In more recent periods, we've seen that the Sam's Club format, one, has done really well there. We've struggled more on the Hypermart side. It's been very competitive. The leadership team there has made some changes that have made the Hypermart perform better more recently. So we're quite encouraged by that. But the Sam's is -- Sam's format there is certainly the one that I think has the most opportunity. We have seven or eight clubs in China that do over half a billion in annual sales. And we help in these clubs, and the traffic that we get day one is just -- it's mind boggling. I wish we had that across the globe.

But it's a big opportunity for us. It's also, an entity for us, a market for us that has a perfect blend of physical and digital. It's roughly 50-50 today. And there are a lot of learnings from China that we are able to apply to the rest of the globe, the rest of our enterprise, because of the experiences that they've had there. So we're pretty bullish on the international segment, and certainly China and India stand out there.

Steph Wissink
Rupesh, I would just connect this to the leadership transition announcement we made. It's not well known, but John Furner spent a significant portion of his time in the international segment in China. So his familiarity with this more balanced digital physical omni business at scale and understanding how to use physical assets in a really unique way, that is something that he's going to bring to bear across the organization. So I think there's a lot of excitement around really learning from our China business, paying closer attention to what they're observing in a business that's more balanced across digital physical.

Rupesh Parikh
Great. Now switching to Sam's Club in the US, so we see a strong line -- strong top line momentum continues. So with store growth representing a bigger part of the story, I want to spend a little more time on this topic. As you look at your two newer locations, how do those continue to perform? And are you still on track for the 30 new stores over the planning period?

John David Rainey
Yes, we are on track. With Sam's, we always try to be a little bit on the edge of innovation. This is the segment of our business where we experiment a little bit more. And so with all of that innovation, there are things that we reflect on and we learn and like, okay, that affirms our point of view on this and we should do more of that. There are also areas where we step back and we're like that didn't work quite as well as what we had planned.

There are two or three observations on these new stores. The first would be around membership. We've taken a different approach where there's more community outreach initially. We've got more people on the ground marketing this. We opened the fuel stations a little bit sooner, all in an effort to drive up membership in advance of the club actually opening. That has gone really well, and that's a model we'll continue to follow.

The second is the MPS on these stores, or I should say clubs, is quite high. It's a more modern club. There's better lighting. And so those are things that we want to replicate. The third one is, I think as we're reflective on this and acknowledging that we haven't opened clubs in some time, while we're driving the membership, or we're seeing the membership that we expected, there's a curve to the spend per member. And that is not tracked exactly how we would have imagined. And so we've -- we're going back and calibrating our rollouts better going forward with some of the reflections or the learnings that we're having on these first couple of clubs.

All that said, based upon these two clubs, I think we're emboldened to continue down this path, and we feel really good about the new clubs that we've put out there.

Steph Wissink
So if I build on this, I think the digital side of Sam's story is something to really pay attention to, that they're changing the way that members think about the clubs, not just the physical experience, but it's also the extended digital experience. And there is a future, because Sam's is leveraging the assets of the Walmart US business where you could have members that aren't attached to a physical club that are digital members and still get all of the benefits and value of the Sam's Club membership but do so at a distance from a club. And we're encouraged by some of the digital signals that we're seeing. Delivery has had multiple quarters of triple-digit growth. Sam's continues to invest in the digital value proposition for their members. So you're going to see more enhancements on the digital side, and to John David's point, using technology and leveraging the infrastructure of the Walmart US segment to really drive accelerated growth through digital.

Rupesh Parikh
Great. Now I'm going to wrap up with a few financial questions. So as we look towards next year, what do you believe are the implications on your business and your consumer from the Big Beautiful Bill? In our investor conversations, there's clearly some enthusiasm around potential stimulus-related tax refunds, but at the same time, concerns on SNAP reductions.

John David Rainey
I think for the most part, what we see all balances out. We've not, in our planning horizon, taken a sharply different look at macro factors like that that we think are going to influence our business one way or the other. The perhaps unique thing about Walmart is how insulated we are from some of the swings that we see in economic cycles. We tend to be a company that performs very well and gains share when we're in more recessionary periods or pocketbooks are stretched. We also do very well in expansionary times. When you take all the various things and put out there on balance, I think they kind of net out.

Rupesh Parikh
And then one more question - as we look towards next year, are there any initial high-level puts and takes that we should be contemplating or that you may be willing to share at this early juncture?
John David Rainey
The biggest thing I would -- well, we've mentioned the maximum fair pricing, but that's more of a top-line thing, and again, in total, won't be that significant. On the bottom line, we don't anticipate having the same headwind to expenses that we experienced this year with our self-insured claims. That -- by the time we finish the year, that'll be close to $1 billion of incremental expense year over year for us. And mind you, we're performing by growing operating income faster than sales even with that headwind. We're at a more elevated level of claims going forward

for the reasons that I mentioned on the call last time, but we don't expect it to be an incremental expense relative to what we saw this year.

Rupesh Parikh
And then on capital allocation, we've seen more balanced capital allocation efforts between the step up and the dividend, the ramp up and share buybacks, and the Vizio acquisition. Can you remind us of your priorities going forward?

John David Rainey
Yeah, as I've said before, every dollar of capital has to compete for the best returns out there, and we're pretty rigorous about that. We recognize we're spending more capital than we have historically, but we want to continue to grow our return on investment each year. We've got -- we're only about 50% of the way through automating our supply chain. These are return -- these are projects that have call it 20% IRRs. Some are high teens; some are low 20s. We feel really good about that and think that we're very fortunate to be a six-decade-old company that has those kind of opportunities to invest in ourselves to drive those kind of returns.

So that's probably priority one. We also want to balance the return to shareholders through dividends and share buyback. Stands to reason, like given how we're thinking about the future, free cash flow we expect to inflect at some point in the future, and that's going to give us an opportunity to probably do more in those categories. And then what we're always going to be looking for are opportunities to complement our organic growth with tuck-in acquisitions. Where we can find an acquisition or a company that acts as an accelerant to something that we're already doing, we won't be shy about doing that. As I sit here today, like there's no like big, huge acquisitions that we're contemplating. So I don't really think of that so much as a draw on capital versus the other areas that I mentioned.

Rupesh Parikh
Okay, great. I'm going to try to fit in two last questions. So just on SG&A, as we move past the major headwinds this year, do you see a path in the intermediate term to start leveraging expenses consistently in the U.S. business?

John David Rainey
I do. I think it would probably be on the more modest side next year, but there's a phenomenon here that's probably worth explaining a little bit. We've talked about the pressure on SG&A as a percent of revenue over the last couple of years related to the mix change in our business, meaning that as we sell more e-commerce items, and that represents a larger portion of our overall business, those tend to have a higher SG&A associated with them. And so that has put pressure on the overall SG&A as a percent of revenue. The inflection that we've had this year, though, that now that e-commerce is profitable for us, we actually begin to leverage that. So said differently, we would expect to grow e-commerce sales at a higher rate next year than our SG&A.

And so this actually kind of turns into a little bit of a tailwind for us. And that's the advantage of a digital platform is being able to grow it at a very low marginal cost. We're finally there. Like, hoorah. I'm looking forward to this because I think it really gives us attractive incremental margins going forward. In the most recent quarter, we talked about a 10% incremental margin on our e-commerce business. So for every incremental dollar of revenue that we brought in, $0.10 fell to the bottom line. That's a good way to think about our business going forward. Not every quarter is going to be that way, but that's the model that we have.

Rupesh Parikh
That's great. So now to wrap up, in 2023, your team provided an updated algorithm for 4% top line growth on average and operating income growth at a faster rate than sales in the 48% range. For both FY '24 and FY '25, the company delivered above those targets. And it looks like, this year, you guys are trending above, as well. So overall, what is your confidence in still being able to deliver on these targets longer term? And looking back, have there been any major surprises versus your initial thinking when setting these targets?

John David Rainey
Let me start with any initial surprises. And nothing like really stands out or comes to mind. If you look at the results that we put up -- and again, the claims are a little bit anomalous this year. So if you adjusted for that and looked at the last three years, we've been growing operating income in almost a double-digit range. That's higher than the guidance that we put out. So I would say that the team has executed better on this, and we've seen the results. With anything, there are some things that underperform and other things that overperform, but on the net, you'd say it's more the latter.

In terms of confidence, look, you know I'm bullish on Walmart. I probably have more conviction at this point in time than at any of the three and a half years that I've been here, given what we've seen. When we put that mark out at our investor day three years ago, there was a little bit of like, okay, if you look in the last five years before that, we had grown the top line 5% or 6% and operating income half of that. So I think it was a little bit of a hold your breath moment. Like we've got to deliver, and you've seen us do that.

So now, I think we feel really good about this. And as we look out over the next few years, I think, fortunately -- Doug said this before - like the to-do list across the globe is very similar. What we need to do in Canada is the same thing we need to do in the US. It's the same thing that we need to do in China. And it's also like why we brought Daniel here, because we're taking more of a platform approach to this and recognizing the synergies that exist between each of our markets and segments.

So I feel really good about the future. We're not immune to macroeconomic shocks and things like tariffs and higher claims expenses; those are always gonna impact our business. But when you look at how the core business is performing, as this last quarter illustrates I hope, we're feeling pretty good about things.

Steph Wissink
Rupesh, I would build on it with one thing, and that's, by design, business models on paper, you always hope that they deliver based on what you put in the Excel spreadsheet. What's impressed me is just how agile the teams have been, given the backdrop has been so dynamic, and that the business model therefore is delivering in the context really of any backdrop. So I think that's what also gives us conviction is it's not so backdrop dependent. It's actually somewhat flexible within the backdrop to continue to deliver on the framework, really despite what's going on around us. And I think that's a testament to the team and their agility to react and do what's best for the customer continuously and deliver consistently well.

John David Rainey
Rupesh, if I could just say one last thing to close out. I want to thank everybody for participating in this call on the Friday before Thanksgiving. I hope everybody has a wonderful holiday. We appreciate your support of Walmart. Jamie and Rupesh, thank you both for supporting this call. And we're excited about Walmart. Hopefully, you get a feeling for that by listening to what we've had to say.

Rupesh Parikh
Thanks, John David. So that wraps up today's call. Thank you, everyone, for joining us. And once again, we would like to thank Walmart for their ongoing support of our military veterans.

Operator
Thank you. This will now conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.