Walmart
Q1 FY '27 Buyside Investor Call
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Presenters
John David Rainey - Chief Financial Officer
Steph Wissink - Senior Vice President, Investor Relations
Kelly Bania - BMO Capital

Operator
Greetings. Welcome to Walmart's First Quarter Fiscal '27 Buy Side Call. At this time, all participants are in listen-only mode.

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

Steph Wissink
Thanks, Rob. Good morning, everybody. 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.

You can review our press release and slide presentation to see a copy of our cautionary statements regarding forward-looking statements, as well as our entire safe harbor statement and non-GAAP reconciliations on our website at stock.walmart.com.

Kelly, I'm going to turn it over to you to open the call.

Kelly Bania
All right. Thanks, Steph. Hello, everyone. We're going to just get started here. I'm Kelly Bania. I'm the food retail analyst at BMO Capital. Just want to thank Walmart for allowing us to host this call today. And thank you, John David, especially for carving out time for this discussion. We have 45 minutes, so I want to keep us on track. And always lots to cover with a business moving as fast as Walmart is, so I'm just going to jump right into it.

So, I guess, John David, first on the quarter, lots of questions about fuel, clearly. This was not, you know, called out from pretty much some of your peers so far in retail. We're only midway through earnings. But you did absorb that 175 million in cost in Q1. Can you just clarify in more detail the plans that you have, you know, into Q2 and into the back half of the year, and how you're going to manage that either with offsets, absorption, passing that on, and really what drives that

decision on how much to -- you know, how to handle those various factors in dealing with these higher fuel costs?

John David Rainey
I'd be happy to, Kelly. First, let me say thank you for hosting the call, and thank everybody that's listening for devoting their time to hearing more about our quarter. I look forward to getting into the questions.

I want to start, though, with just a general comment that I want to be really clear that our business is performing really well. Our business is strong. We had good top line growth. We gained market share in a lot of categories that -- it's been many years since we've done that. We continue to gain share among all income groups.

And this is really fueled by the strong e-commerce business. To have the consistency of e-commerce growth, in the most recent quarter, 26%, and the engines behind that, I think importantly, things like Marketplace, Fulfillment Services, advertising, they had what is perhaps their best quarter since we started many of these initiatives.

So, I think it really speaks to the momentum and the earnings power of the business. I'm disappointed in the stock price but, look, I understand. You know, we didn't have the cleanest quarter, particularly from an operating margin perspective, and that probably leads into your first question on fuel expense.

From the time that we gave guidance, you know, a lot of events happened, and events that led to these higher fuel prices. I think for an organization our size, we're actually fairly nimble and generally able to respond to some of these cost pressures, but not that nimble. Within the quarter, it was hard to respond to almost $200 million of cost pressure with some of the other pressures that we see in the business. We talked a little bit about what we saw with the consumer, and we'll probably get more into that.

As we look into 2Q and the second half of the year, I think we've got a number of levers in our business that I think will enable us to offset some of these fuel pressures. I don't know where fuel prices will go for the year. But if they stay where they are right now, we certainly feel like this is a level that we can manage.

And look, in any particular time period, our goal is to outperform our guidance. And to be really clear, that's our goal for this year. For the second quarter it is, for the second half, and for the full year. And I just think we've got so many parts of our business that have momentum right now, and the mood or the sentiment internally is actually one kind of excitement around some of what we're seeing here in the business. We obviously have to navigate the fuel environment and any changes to the health of the consumer, but we feel we are better positioned to do that than virtually anyone else.

Kelly Bania
Okay. That's really helpful. I guess on that note, just with how that factors into your guidance, so you reiterated your EPS guidance along with operating income. Sales pointed to the upper end of that constant currency range. Can you just walk us through that thought process there?

John David Rainey
Sure, I'd be happy to. It's important to understand for me philosophically, I have an aversion to changing full year guidance after one quarter of actuals. My preference would always be to wait until the midyear. There's too much of the year left and unknowns. And I don't think it looks good on management teams when they find themselves raising guidance after one quarter, only to have to potentially reverse that or pivot differently later in the year.

So, I like a more measured approach to the full year outlook. It just so happens mathematically, if you look at our outperformance in sales in 1Q, had we not given a head nod towards the upper end of the full year guidance, it would have implied a decel as you go through the year, and that's not how we think about our business.

On operating income, that wasn't the case. Because we came in at the midpoint of our guidance, the full year guidance still perfectly applied without reading anything differently into that. I'll remind everybody that we said at the beginning of the year that the first quarter would be the most challenging from an operating income growth perspective and then we would improve as we go through the year. That's still our expectation.

You see the 7% to 10% guidance on a currency neutral basis. On a reported basis in 2Q, it's actually almost 11.5% when you consider the 130 basis point tailwind at the upper end of our guidance. So, we feel good about that. And while the second half of the year maybe won't be quite as good as the second quarter given what we see right now, it'll look a lot more like the second quarter than certainly the first quarter.

So, it was really just mathematically we felt like we needed to give some kind of indication about what was going to happen to the full year based upon the first quarter performance on sales. And we didn't need to do that mathematically, given the operating income performance.

But maybe one more thing, Kelly, on this.

Kelly Bania
Sure.

John David Rainey
I don't want people to hear from that that we have some question or doubt about our ability to get our guidance. As I noted, like, we always have a plan that -- I mean, I think most management teams are gonna haircut their forecast and plan when they think about what their guidance is going to be. Now, you don't always perfectly execute on what that plan is, and that's part of the

reason for that. But, you know, we hope to be able to outperform, out achieve the guidance that we have for the year.

Kelly Bania
Okay, that's very helpful. Couldn't agree more on your guidance philosophy.

So, let's turn to margins a little bit. We didn't really touch on gross margin too much, I think, on the calls yesterday. But you had a lot of tailwinds with business mix, category mix maybe for the first time in a while. The inflation reduction and the pharmacy dynamics I think would be margin tailwinds, and then obviously fuel was a headwind. But can you just unpack those pieces for me or correct me where I'm wrong and help us think about, you know, gross margin for the rest of the year?

John David Rainey
I'd be happy to. And your characterization is correct. I mean, we have a lot of puts and takes there, so maybe I'll start with category mix. That was something that was pretty exciting for us because of the growth in general merchandise. For the first time in a number of years now, that actually was a contributor to gross profit improvement.

I think it's certainly fair to assume that some of that is probably macro based, meaning we benefited from an elevated level of tax refunds. I don't want to take credit for the entirety of this, but -- from the initiatives that we have, but certainly we know that part of what we're doing is contributing to that.

We hear it from our customers. We see it in our sales categories, and fashion was an area in particular that was really a strong point for us this quarter. You know, Kelly, because of your familiarity with what we're doing there, you know, some of the improvements that we're making there. So, that's one thing.

Fuel, the 175 million that we referenced hits the GP line for us. So, that is a headwind. We talked about it being 250 basis points of headwind to operating margin, and you could do the math on what it would be to gross profit. So, that -- the general merchandise performance actually was even better, but it was obscured by some of the pressure on fuel.

The other aspect is business mix. And I mentioned a couple metrics, and maybe we'll get into these in more detail. But advertising for the enterprise globally grew 37%. Our Marketplace business on a revenue basis grew 50%. These are contributors to the gross profit line here. And so, we're pleased with the overall progress.

I think I indicated in some form yesterday that probably the improvement from category mix, or at least our expectation in 2Q, is it's not going to be of the same magnitude as Q1. And you may ascribe some of that just to the fact that we don't have a tax refund benefit in Q2. So, I hope it's

still very much positive, but I just want to meter some of the expectations on that. We hope to continue to see this be a benefit, but maybe not as much as what it was in the first quarter.

Steph Wissink
Kelly, it's Steph. If I could just build on John David's point, I think his conviction in what we're saying on the general merchandise side, some of that preceded tax refunds, and that's what's giving us confidence that this is something that is of our own initiatives. We saw some of the improvement in the third quarter coming around back to school. It started to build across more categories in the holiday season. And we -- you know, we saw it even into the early part of the year.

So, that's the part that we're giving ourselves credit for. And then the layer on top of that which might have been a little bit of the booster factor was from what we expect to be, you know, the tax refund cycle, just given it was so much more pronounced than we had initially expected it to be this year.

Kelly Bania
Okay, that's all reasonable and makes sense. We'll come back to the consumer in a minute, but maybe we'll just kind of finish up on margins here. The SG&A, at least in my model for the global enterprise, was a little bit higher than we had planned. Maybe can -- was that -- how did that come in for you, I guess, and how should we think about the drivers of SG&A the next couple quarters?

John David Rainey
Sure. So, there is really one big item, maybe two items I'd call out here. But the most prominent one was you may have seen that we announced a restructuring charge related to some of our technology and product development associates.

That expense or cost is in that line, and that's not something that we would expect to be recurring, obviously, in fact the opposite of that. We would expect to probably see a P&L benefit related to fewer associates and fewer headcount costs in that area. So, that was the biggest single line item.

We also -- there's always, you know, some -- a few other cats and dogs. Healthcare was one where we have a higher number of enrollees in our health plans right now, and that's because we're seeing less attrition in stores, which I'll take this trade-off. We always love having more tenured, seasoned associates that are serving our customers. But a consequence of that was an accrual in the first quarter to recognize that we have a higher number of enrollees.

And so, that was different than what we expected when we went into the quarter, but, again, fully accounted for in our second quarter and full year guidance. Those are the main things.

Steph Wissink

Kelly, and I would just remind everyone, there's a real estate shift happening in the middle of our P&L. As we use our stores to fulfill e-commerce, the fulfillment cost of those e-commerce orders are in the SG&A line. And so, as you grow e-commerce 26% and, you know, strong in the U.S. as well, leveraging your store network, which we think is a strategic asset, you're going to have representative costs within SG&A for those fulfillment expenses.

And so, that is where the expense is for the associates that are picking, packing, and preparing those orders, and it's also where the costs are for the Spark driver network when we pay them to deliver last mile.

Kelly Bania
Okay, that's helpful. All right, let's keep moving here.

I guess there are always a lot of questions on just the health of the consumer, what you're seeing across income cohorts. I think you talked about how you're gaining really across all of those. But can you just maybe remind us, you know, by income cohort what you saw in the quarter and how that changed? I know tax refunds maybe adds noise to that, but maybe across categories or traffic and ticket, you know, anything that really stood out to you that we should be aware of. And also, if you can tie in, John David, just your message, if there was one, on quarter-to-date trends.

John David Rainey
Sure. Increasingly, it's becoming very difficult to answer with a one-size-fits-all, so I appreciate that you -- asking the question in the context of income cohorts, because we see that the high income customer continues to spend across many categories, frankly, with confidence, whereas the low income consumer we can tell is a little more budget conscious and navigating some financial distress, probably.

We talked about, probably on this call the last quarter, the fact that, if you look at year-over-year spending among income groups, the gap between the high income and the low income has widened over the last several quarters. We continued to see that in the first quarter. Fuel prices was an additional headwind incrementally from the last quarter.

I think tax refunds probably muted some of the pressure there, but, you know, we still think that they're feeling some of the pressure. One of the things that we pointed to was actually the number of gallons that someone purchases when they fill up at one of our service stations. And that -- the number of gallons fell below 10 for the first time since 2022. That is an indication of pressure for sure. People’s wallets are stretched.

And so, we're trying to be there for those consumers. We talked about the proactive rollbacks that we put out in respect to that. But as we got through the quarter, the end of the quarter felt a little bit different than the beginning of the quarter, I think in part because of weather. You know, certainly as we look at some of our seasonal items and fashion merchandise, like, we're

ready to have some warmer weather so we can sell through some of those things. But I think that probably impacted a little bit at the end of the quarter.

So, you know, I would generalize and say the consumer still feels reasonably healthy. There's certainly nothing to panic about right now. But when you dig into the details, you can see that the pressure is a little bit uneven, and so it's something that we're keeping our eye on.

And the last thing I'll say is traffic, among all those income groups, has been really strong to our stores, but another indication is that units per basket has been a little bit lower. So, you know, again, an indication that wallets are being a little more stretched.

Steph Wissink
Kelly, it's Steph. I would just build, when you separate the business between general merchandise and grocery, it's more pronounced in general merchandise, as you would expect. So, that is not a surprise to us.

But to John David's point, when we started to see this K-shape emerging in the business Q3 into Q4, and that has continued to persist, it's most acute in general merchandise. Grocery is where that low income and low to mid income consumer continues to rely on us for everyday essentials at a great value. So, we haven't seen it as pronounced in grocery as we've seen it in general merchandise. But I think that may be stating the obvious, just given that the higher that fuel prices have gone, that starts to pinch the discretionary side of the low and low middle income wallets.

John David Rainey
Something we look at a lot, Kelly, is real wage growth. And, you know, thus far, that has generally -- you know, that has just generally sort of kept up with price levels. Some data may be out there by a couple economists suggesting in the most recent period that was pressured a little bit more. But generally right now, the number of job openings is at parity with unemployment, so that feels roughly balanced right now. But it's something that we keep an eye on.

Kelly Bania
Okay, that's very helpful. That makes a lot of sense.

Let's switch gears a little bit, and we've been getting a lot of questions on competition, especially in light of some announcements. And so, just wanted to talk about your price gaps, always on investors' minds with Walmart, how you feel about your price gaps. And a large grocery competitor, I guess, is really talking about addressing their everyday pricing and affordability.

And I'm just curious if you can at all talk about, you know, how Walmart may or may not respond to something like that, your philosophy. I believe Walmart always kind of has a reserve for some amount of price investments. Maybe we already saw some of that in Q1. But, you know, any

color that you can add on, you know, how you would react, what you're seeing in terms of grocery competition and how you can buffer that going forward.

John David Rainey
Sure, happy to. We generally feel pretty good about our price gaps. I think they are in a better place and have been in a better place than they've been in years. I did see some of the opportunistic comments around that yesterday. But look, competition is nothing new to us. And I'll remind you, we were asked some questions about tariff refunds, and we said that we are going to prioritize those towards price investment.

Keep in mind that not all of our competitors are going to have that level of refund, and so something to be mindful of. And just because we're getting a refund on maybe a tariff that was paid on general merchandise doesn't mean that we can't reinvest that into an area where we think we might be able to drive more share. So, we generally feel pretty good about this right now.

I don't want to be dismissive of the competition in any way. That's something that we deal with all the time. We've cited where there are pockets where we feel like we need to address, and we've been doing those, but it's also, like something that we're seeing in our business, it's not just prices. It's also convenience, and I think that's really, really important. And frankly, we have a pretty good portfolio of assets to understand the importance of that.

We can look at markets like the US markets, a segment like Sam's, India, China, and where we have a really strong omnipresence, we see that we're gaining share. In other markets, let's take Mexico as an example, or maybe a Canada, where that omnipresence or that e-commerce presence isn't as strong, we struggle more, to be frank. And we recognize that we don't have the advantage of convenience that we do in these other markets, and so price gaps become a lot more important.

But our customers tell us today -- I want to be really clear on this point. Our customers tell us today that they value us as much for convenience as they do for price. We talked a lot yesterday about the improvements we've made. They're now serving 60% of US households in 30 minutes. This is a great advantage that we have. And importantly, we've used this tagline of fast fuels frequency. When we can serve our customers in an expedited fashion like that, we get increased engagement from them.

With increased engagement, that improves the utility of things like membership programs at Sam's, at Walmart Plus. And that membership income grew 17.5% in the quarter, so these are important parts of our business that I think are a little bit more unique to us versus some of the others that you're talking about, that don't have the distribution network, don't have the abilities or the capabilities to serve their customers in the timeframe that we promise them.

Steph Wissink
Kelly, if I could build on that. I think what you're hearing John David say is that market share gained compounds and is sustainable, and we've seen that more and more in the business. And so, it's not that we don't pay attention to competition; we absolutely do, but we've seen that our business is more defensible against some of those provocations than it's been in the past, because it's not just price gap. To John David's point, it's also speed of convenience and access.

And when you look at a digital basket, it looks very different fully delivered than a shelf price comparison. So, I would encourage everybody to take a look at that. You can look at shelf pricing and compare, and that's typically what we call our price gap, but we're increasingly looking at a fully delivered order to the door, and what does it cost the customer, and you can start to see some really wide price gaps, fully delivered digital basket. And that's where the growth is in groceries, so we feel really good about the position we're in. And I just wouldn't want it to be so narrowly focused on what's the price of an item at shelf. Really think about the digital side as well, because that's where the customers telling us they're relying on us more.

Kelly Bania
No, I think that's a really good point. I mean, Walmart's had very good prices for a long time, but it really feels like it's accelerated and attracted this new kind of higher income consumer with this digital business, so I think that's an excellent point. Have to ask just another question. You have another large competitor, really more e-commerce focused, but it's underpenetrated in fresh today, and trying to make some moves in the fresh category, as well as expedited capabilities in one and three hour. We get this question a lot from investors, and everybody we talk to kind of suggests that they haven't seen an impact. But I guess the question is more, are you monitoring this, are you seeing any signs of impact, and anything that you feel like you need to invest to protect your moat against this competitive dynamic?

John David Rainey
Yes, we are monitoring it, something we look at closely. And I think, if you were to just step back and look at our network of stores and clubs in the US, the lay observer could easily sort of surmise where we're strong and where we're less strong. And so, we're cognizant of that as we think about competing with some of the others out there. And I don't want to give a playbook to our competition on necessarily how we're thinking about this, but you can pick up on some of these subtle changes that we're doing, some of these stores where maybe we don't have an in-store presence, but use it as a delivery node, things like that, that help us serve some of the more urban areas as well.

So, we're aware of this, and, yes, I mean, it makes us tweak some of our capital investment here and there. It doesn't change the overall capital spending, but we're investing in this to stay ahead of the competition here, for sure.

Kelly Bania
OK. All right. Well, let's keep moving forward. I don't want to say the fun stuff is ahead, but I do want to talk about e-commerce and advertising and marketplace, given all the momentum there. So maybe we can start with just the incremental e-commerce margins. I think you commented yesterday that that was 12% in the US. Can you just help unpack some of the drivers there? I think a lot of investors are always trying to do math around that, and it's a little hard to do. But I think the core of the question is, how much are things like densification and expedited deliveries and things outside of advertising and marketplace contributing to those double-digit incremental ecommerce margins?

John David Rainey
Sure. You're correct in that a lot of the things that you mentioned are continuing to contribute there. Advertising is one that I would call out. You can just look at the overall growth and understand how that's benefiting that. Densification is also equally important, as we continue to gain shares and have more customers that are shopping with us digitally. It allows us to improve the delivery cost, so that's another area to call out.

And you mentioned it, but 36% of our orders in the most recent quarter that were delivered from stores, someone paid extra for to have expedited delivery. And so, I think that certainly helps that too. But it's not just these other ancillary revenue streams, the core e-commerce business continues to improve. And in fact, if I were to strip out all the core areas like advertising and data ventures and things like that, our core e-commerce business is approaching profitability right now in the first quarter, and we're basically break even if you allow me a little bit of rounding there.

But I think that speaks to the inherent strength of the core operation, and part of that is the supply chain automation that we put in place. We've talked about now that now 60% of our stores have some form of automation, or being served with some form of automation. 50% of our FC network is automated. We continue to invest here because we see really strong returns, improved economics on this.

And so when we talk about e-commerce, and it's easy to get excited about the share gains and the speed of delivery and all that, but something that is somewhat maybe a little more unique to us is our ability to do that, so economically, which frankly, Kelly just makes us want to put our foot on the accelerator on this area of the business, because it's no longer at a point where it's losing money. Every incremental unit that we add is just helping us grow profit more. And that's, I think, in part because of our supply chain automation.

I think it's in part because of the distribution network that we have with 5,000 delivery nodes that are located within 10 miles of 90% of America. So, this is this is unique to our business versus a lot of the others that don't have that historical brick and mortar presence that they can now use as part of their distribution network.

Kelly Bania
OK. So let me just make sure I heard that right. That was really helpful. The core kind of e-com, excluding advertising or advertising and marketing, would be approaching flat. We'll give you some rounding there, but just want to make sure I understand that.

John David Rainey
So if I exclude all of what we sort of call new ventures and talk about like advertising, data ventures, marketplace fulfillment services, excluding all of that, the only thing I'm including is membership income, so just membership income and the cost to get a package from A to B, that is approaching break even right now.

Steph Wissink
And, Kelly, if I could just build on that -- a number of you reached out yesterday. We still have a tremendous amount of opportunity. There is a viral video now of Walmart delivering hundreds of pool noodles, one pool noodle per box. And so, if you think about breaking even, including membership, with opportunities still on the operational side of e-commerce delivery, whether that's batch route density, items per order, items packaged per order -- if you're a Walmart Plus member, you may even see this yourself. You're getting multiple items delivered to you in individualized packages. There's a tremendous amount of opportunity that we have to just get better at doing the operational basics when it comes to e-commerce, and that's just going to only further fuel the upside in the profit generated from core e-commerce without those subsidies.

John David Rainey
Yeah, let me spend just a little bit longer on that subject and poke some fun at ourselves here because we did have a customer that ordered 1,500 pool noodles, and unfortunately, we delivered them in 1,500 boxes, which highlights like we're still kind of learning this. People ask us what inning we're in here. We have a long ways to go to get better. And to be able to talk about these economics when we still have those kind of growing pains, you can look at it as a lot of opportunity. But we're far from perfect here. And that was a real lesson to a lot of us here. Like those of you that have heard me talk before heard me cite similar examples in the past, and I think we've made a lot of improvement.

But you can't over rotate on speed. And the trade-off of speed is batch density. And certainly, if you're delivering 1,500 pool noodles one box at a time, that's not really great batch density. So, yeah, work to do there, but I also think it shows like we have a long way to go till we get to the end state of what we expect.

Kelly Bania
Okay, that's really interesting. I can't imagine what someone needs 1,500 pool noodles for, but okay. So I wanted to just ask about also the fast delivery. The data point you gave yesterday, 60% of households now get Walmart delivery in 30 minutes. I'm just curious what you're learning from the basket composition of those ultra fast orders and if you think you are building a competitive

advantage -- I think you've already answered that on that front, but what can you tell us about what you're learning with these ultra fast deliveries?

John David Rainey
Sure, happy to. And we have addressed parts of this, so I'll probably keep my answer a little shorter. But one of the key things we look at on all the actions that we take is GMV attribution. When someone is more engaged with us, when they get an order faster, are they buying more things from us? And let me just use Sam's as an example. So recently, we launched a service at Sam's where we have dynamic delivery where one of our members can pick the time that they want, and it's a very expedited timeframe. We see an average, a higher average order value among those deliveries, which is really interesting to us. And in part, probably the customer is saying I'm going to pay something extra to have that delivered really quickly. So I'm going to throw in a lot of other things to cover that incremental cost. But, we love that. Like, we want our customers to get the things that they want and get them quickly. And if they want to increase the basket size, that's fantastic for us.

Kelly Bania
That's so interesting. All right, let's touch on just Walmart Plus, as well. I think the membership fee income there, I think you said, was 17%. Just maybe just help us, what do you -- what is really resonating with customers and the continued membership growth there?

John David Rainey
I think, sometimes, there's a tendency to maybe overcomplicate this. Certainly, we'll continue to consider adding different amenities to the membership programs that we have if we think that they improve the utility, but you can go back and look historically -- the data will tell you, and it's very clear here, members fundamentally value three things. They want free delivery, they want easy returns, and they want speed. And so that's where our focus has been. And you heard the comments on the call yesterday with all of the efforts that we're making in those areas.

Steph Wissink
Hey, Kelly, it's Steph. Just one clarification - the 17.5% is our global membership number. And we talked about Sam's growing in the upper mid single digits in the U.S. Walmart Plus is in the strong double digits. Just wanted to make sure that -- that's not a Walmart Plus figure, that's our global membership figure.

Kelly Bania
Okay, thank you. Okay, let's shift to Marketplace. Lots of questions on Marketplace; feels like that really accelerated. You called out the 50% growth. I believe that was a US number. But can you just unpack some of the drivers of what's happening at Marketplace?

John David Rainey
I would say I could get into a lot of detail here. And since you have several questions, I'm just going to -- at a high level, this has been the primary focus where our efforts have been spent over

the last several quarters. We, as I think everyone on this call, appreciates the importance of this, the flywheel nature of this part of the business, what it does for advertising, what it does for fulfillment services. So when we hired our new head of product, Daniel Danker, last year, this quickly became item number one, two, and three on his priority list, and you're seeing the results of that.

Steph Wissink
Kelly, too, just to build on that, we've gotten a lot of questions around the delta between Marketplace revenue growth and GMV. We don't disclose GMV, but importantly, last year in the third and fourth quarter, we had some incentives in our Marketplace business to drive Marketplace sellers to upload their catalogs, and frankly, to help us balance inventory risk in the tariff environment across owned and borrowed inventory. And so just wanted to call that out because GMV growth has been very stable, but Marketplace revenue growth, which is a reflection of the fees or the commissions, that can move around based on the different incentive structure that we put in place. So that grew below GMV Q3, Q4. It moved above GMV in Q1 as we rolled off some of those back to school holiday incentives that we had in place.

Kelly Bania
Okay, okay. That's really helpful. I guess one question that's just been on my mind, too, I don't know if you have a lot to say about this, but just with Marketplace, I think you have something like 500 million items, but obviously, just a wider breadth of price points, of brands, of products that you have in the store. So I'm curious just how that has informed what you're learning about your customer as well as kind of the new customers that you're gaining with this offering?

John David Rainey
Let me just give a real succinct answer where the data will speak for itself. An omnichannel customer for us spends three times more than a customer that just shops in store. A customer that is omnichannel and also uses the Marketplace spends 17% more than someone that is just omnichannel.

Steph Wissink
And, Kelly, maybe just to build on that, we have a go-get list of brands that our Marketplace team is working with our merchants to identify as real brands that drive kind of a perception halo. We've talked in the past about brands like Apple, which were a key catalyst to driving a number of brand acquisitions within our catalog in electronics. We've had some success in toys. You've heard us talk about beauty. So there's definitely a strategy in place to identify the brands that build the catalog that drive more wallet share potential as we think about Marketplace. And in some cases, those brands have gone Marketplace to store. And so we can also kind of work in reverse, and our merchants can see what brands are trending on Marketplace and those can ultimately become 1P in-store assortment items, as well.

Kelly Bania
Okay, yeah, that's so fascinating. Maybe just do a couple of more questions here. I think we have seven or so minutes. Want to touch on advertising. And I think at the root of the question that I have on advertising is just trying to understand the runway that's left. Obviously, you are still launching in some places like Mexico and Canada. You obviously have the Marketplace and the offering there, which is very different. So I'm just trying to understand how you feel about the long-term runway for advertising from here, given how strong the numbers have been for quite some time?

John David Rainey
Well, I'm very bullish still. The vast majority of our advertising, and for that matter, GMV, is in the U.S. today. We're -- and I think we have a lot of potential there. I mean, you can look at metrics like advertising as percent of GMV, and easily, we can double what we're doing today to get to what best in class is.

But the opportunity in a country like Mexico or Canada and even some of our other international markets, we've got a whole lot more runway than that. As I mentioned in an earlier answer, advertising is tied to, in many ways, like in the Marketplace business. I noted in previous calls that the growth in our advertising in the US going forward, we expect to come to skew more toward 3P marketplace sellers. And by the way, in the quarter, that number increased 50%, as well. So it shows you the progress on the initiative that we highlighted that was so important.

As we don't have significant marketplaces outside of India and the US, that gives us a lot of opportunity in those areas. Now, to be clear, the whole platform approach that we've talked about, the whole platform approach that John Furner is really pushing for is to build once and apply that globally. And so we're taking the same things that we've done in the U.S. and applying that to Canada and Mexico and some of the other markets in Latin America. So I think it's a really big opportunity for us going forward.

Steph Wissink
Kelly, I'd just add one thing. Our market -- or excuse me -- our advertising team isn't done building the model, and they keep adding capabilities. And you saw us acquire VIZIO; that adds new surfaces, non-endemic ads. But they keep building more tools for our sellers to drive more performance out of our ad model. So we can, with conviction, tell you that our retail media platform outperforms the balance of the industry, and we keep seeing more dollars coming to us as a function of that. I think you're seeing more sellers using the platform, more dollars per seller, and also more use of the broad spectrum of tools, which we think about through the lens of Walmart Connect, and that'll extend all the way into the TV surface that's in your home with VIZIO.

Kelly Bania
Okay, that's helpful. Just want to switch gears to a couple of last questions to, I guess, on Sam's and international; we touched a little bit on Canada and Mexico. But anything that you felt like

maybe we should call out on those two businesses? I know we didn't give them as much airtime as the US, but anything to call out on Sam's and international?

John David Rainey
Well, maybe I'll start with Sam's Club China just continues to perform exceedingly well. The value proposition there, the growth that we see in our new clubs there -- we've talked before about, I think, five or six of our largest Sam's Clubs are located in China by the measure of revenue. So that business is roughly 50% digital, also. So it gives us a lot of indications about what the future looks like in some of these other markets.

Flipkart and PhonePe are two others that I think are worth noting. Flipkart continues to improve its profit trajectory. And then I think some of the PhonePe numbers, while I can't talk to them because of my position on the board seat and the timing of their IPO, I think they're known and out there how well they're doing. So the rest of our businesses are doing really well. I would highlight, in our portfolio, the focus areas are probably Mexico and Canada. Canada, we've seen seven months now of consistent improvements there in comp sales and the progress we're making, but we have further to go there. And I've talked about some of the investments we're targeting in those areas.

Kelly Bania
Okay, that's helpful. Just last question for me just on the inventory - it did end up pretty high across all the segments. Can you just elaborate on why that was and why the quality of that is still strong? And maybe you can tie in just kind of thoughts on the free cash flow, as well.

John David Rainey
Sure, I'm glad you asked that question. And interestingly, no one did yesterday, so I'm happy to address it. Globally, inventory was up 8.9%. There are two or three primary reasons for that. First, the biggest contributor to that was just timing of receipts. That can be a factor as you get into the end of the quarter. The second, if you look at it by segment, Sam's was up more than that, 8.9%.

From a year ago, we've actually implemented a strategic partnership with a third party to forward purchase fuel where we get surety of supply and we're able to take out the middleman. And so we're taking inventory before the blending process. This has been a big advantage for us; also lowered our cost there. But we have the additional fuel inventory versus what we did a year ago. So that has a not insignificant impact to that.

Lastly, I would say, and I've ranked these kind of in order of impact, too - we've been a little more targeted and strategic about some of the inventory purchases to try to improve things like nil picks, sub rates, things like that within our stores, and we're seeing the advantages from that. So I think we've made the right decisions there. Said differently, from an investor perspective, probably like the risk of high inventory is markdowns. We don't see that as an outsized risk right now, but I wouldn't read into the higher inventory number and draw any conclusions about that.

Oh, and you also mentioned free cash flow. Free cash flow was down in the first quarter. That's strictly a result of accelerating some CapEx into the first quarter. We don't anticipate any changes to our full year CapEx number. And as we noted previously, we expect to have an appreciable increase in free cash flow for the year relative to last year.

Kelly Bania
Okay, perfect. That makes a lot of sense. John David, we're out of time, but I don't know if you wanted to add any closing remarks, but I'll pass it over to you if you do.

John David Rainey
Sure. Again, thank you, Kelly. Thank you to all our audience participants. Hopefully, you get a sense for why we have some conviction about the progress we're making in this business, the momentum that we have in some of these key strategic initiatives. And we're looking forward to delivering a strong second quarter so that, hopefully, we can claw back some of what we've lost here in the last two days. So thanks everybody for participating. Thank you, Kelly.

Kelly Bania
All right, thanks. Happy Memorial Day weekend.

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