Wal-Mart Stores, Inc.
Q3 Earnings Release Buyside Investor Call Hosted by Eden Rock
November 17, 2023

Presenters
Steph Wissink - Senior Vice President, Investor Relation, Walmart
Jamie Barker - CEO, Eden Rock Advisors
Rupesh Parikh - Oppenheimer
John David Rainey - Chief Financial Officer, Walmart
Kary Brunner, Senior Director Investor Relations

Operator
Greetings. Welcome to the Third Quarter Earnings Release Buy Side Investor Call hosted by Eden Rock. At this time, all participants are in listen-only mode. If anyone should require operator assistance during the conference, please press star-zero from your telephone keypad. Please note this conference is being recorded.

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

Steph Wissink
Thanks, Rob. Good morning, everyone. I'm going to read our safe harbor and then I'll turn the call over to Jamie from Eden Rock to do his introduction.

Today's call is being recorded, and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements, as well as our entire safe harbor statement and non-GAAP reconciliations on our website at Stock.walmart.com.

Jamie, I'll pass it over to you.

Jamie Baker
Thank you, Steph. Now, I want to make clear this is Oppenheimer's hosted call. And my name is Jamie Barker. I'm the CEO of Eden Rock Advisors. I, in partnership with the Oppenheimer team, produced today's call.

I am compensated, and I in turn donate my compensation to several veteran charities, including Stop Soldier Suicide. 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 they've done to prevent another 9/11. I can't do what I do without the support of 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 our veteran initiatives, thank you for the privilege of your time today and for your continued support of our veteran initiatives. I'll hand it over to Rupesh.

Rupesh Parikh
Thanks, Jamie. So, good afternoon, everyone. Thank you all for joining us today. We're very excited to have with us today from Walmart EVP and CFO John David Rainey, Steph Wissink, SVP, head of Investor Relations, and Kary Brunner, Senior Director, Investor Relations.

So, the format, today's call will be a fireside chat with questions I've prepared with--which includes some feedback from investors on this call. We plan to go to about 12:45 PM Eastern. And with that, let's get started.

So, I wanted to kick it off on e-commerce, where we saw another strong quarter of 24% growth at Walmart U.S. John David, as we look towards the future, how will you rank the key drivers of Walmart's U.S. e-commerce top line growth?

John David Rainey
Rupesh, thank--first of all, thank you for hosting the call today. And Jamie, thank you for what you're doing. We have a long history with Jamie to help support the causes that he's championing, so we're happy to do that. Thanks, everyone, for joining.

In terms of the question, Rupesh, on e-commerce strength, this is--continues to be an area of our business that is performing quite well. We had, if you just focused on Walmart U.S., 24% growth in our e-commerce business in the latest quarter. Online pickup and delivery, to answer your question, is one of the key drivers of that.

And one of the things that we really like about that is the follow-on benefits that come from those customers that are availing themselves of that. We see that that is the single highest acquisition channel for Walmart Plus. And as we've noted before, Walmart Plus has--the annual spend of those members is appreciably higher, over $1,000 more a year, at Walmart. But all of these things actually work together.

Advertising is really important to the bottom line but is not possible without some of the other digital experiences, namely Marketplace. And Marketplace is, if I had to rank order these, I think one of the more important ones to our strategy. We are quite excited with the improvements that we've been seeing in this category of our business.

And I'll just give you a couple. The number of items that are available for sale on our Marketplace doubled year-over-year. The number of sellers are up 20%. And if you look by category and some of these items that we're selling, like, I'll give like apparel as an example, was up in the midteens. Home and toys I talked about yesterday being up north of 30%.

And so, we're clearly saying that our customers are responding to this, being able to buy third-party merchandise on this Marketplace. This is good for us. The very margin structure of this is different. It also skews more towards general merchandise, which allows us to expand our assortment there.

But with the strong Marketplace, we can also leverage the Walmart Fulfillment Services. We've got--the number of sellers that are using Walmart Fulfillment Services are up over 50% year-over-year. And this is another way that we monetize this. And by having that--those capabilities, you've got more able--eyeballs coming to our website, which attracts more advertising dollars.

So, all of these work together. It's difficult to parse one out and talk about how it would work independently. I think there's strength by being combined.

Rupesh Parikh
Great. And then just on traffic, you continue to see strong traffic, so momentum at Walmart U.S. I think transactions are up 3.4% in the latest quarter. What would you highlight as some of the key drivers here? And then how do you think about the sustainability of the momentum in the traffic that your team is seeing?

John David Rainey
Yeah. So, traffic is an item that we're watching closely as headline inflation comes down, because that's important for us to continue to drive revenue. If you were to look at the quarter by month, e-comm accelerated, and specifically e-comm traffic accelerated throughout the quarter. We ended the quarter at a really strong point, and I would expect that to continue into the fourth quarter just given the propensity for people to shop online over the holiday season.

So, really excited about the trends there. They're certainly in the right direction. And again, I think it underscores that our value proposition is resonating with customers. Like, people are coming to us in ways that they haven't done traditionally, which has just been in-store.

Rupesh Parikh
So, now I want to shift to a few key areas of focus that have come up post report yesterday, so first on the consumer. So, I think many of us were surprised by the slowdown in late October, and you were not sure of all the factors that are--contribute to the moderation. Was the moderation across categories and income groups? Did it also impact Sam's Club? So, just any more color you can provide on the nature of the slowdown that you saw.

John David Rainey

Sure. So, it was mostly U.S., to start with. It did affect Sam's and the U.S. business. And just to put it in context, the comp for the month of October was pretty similar to the quarter overall. And if you think about that comp, let's just call it, you know, 4.5-ish percent, there was about a two point variance between the comp in the first half of the month and the comp in the second half of the month.

Notably, among the categories that we saw slower growth in, food was one of them too. So, this was very different than trends that we've seen throughout the year, and specifically within the quarter. And that caused us to step back and really try to understand what's going on.

One of the first things we'd point to is unseasonable weather, but that probably doesn't drive all of it. We also had--Halloween was on a Tuesday, if I remember correctly. That can have some impact. But it really focused us on digging into what's driving some of these trends. And it appears to us that this is not a Walmart specific issue. This is a broader industry issue. I think that's been supported by some of the other data points that have come out since that period of time.

And so, we got into November, and the first week of November was really strong, better than the comp I just described for October. But that's a little bit of an unfair comparison because we've got events going on and there's more promotional activity. And so, with all of those data points combined, you know, it's a difficult point to forecast--to come out and forecast and give guidance on the fourth quarter, because you don't want to over rotate with recency bias and things like that.

But it's a little bit different than what we've been seeing earlier in the year, and so we thought it was appropriate to call it out and recognize that, because of that, there's probably more variability than--going into this quarter than what we've seen in prior quarters. We're not being alarmists in any way here. We've got a high degree of confidence in executing on our plan and that our value proposition is still resonating.

And there's nothing, there's nothing about this data point that makes us think differently about anything that we've shared with you this year in terms of our long-term growth plan, the algorithm between operating income and sales, even the--this comment that Doug suggested yesterday where we could potentially see deflation.

Like, we're prepared for all of this. And frankly, we think we're positioned better than anyone else to handle this. And so, this is not something that we're shying away from, but we're not immune from swings in the economy and consumer spending. And that could be something that we're seeing a little bit of right now.

Rupesh Parikh
Great. That's really helpful color. And another area we've gotten a lot of question--questions on is just SG&A. So, there are concerns out there on the ability to leverage expenses next year at

Walmart U.S. So, in the current period, we saw 35 basis points of deleverage at Walmart U.S. on a 4.9% comp. So, next year, at least in our model, we expect comps to moderate to the 2 to 3 percentage level.

So, any thoughts on an SG&A leverage point going forward? And then besides legal expenses, do any of the headwinds you're seeing right now dissipate in Q4, and also how to think about some of these headwinds into next year?

John David Rainey
So, there's a lot I want to cover here. There's a lot in your question. So, first of all, do I have concerns about being able to leverage SG&A and to have operating income grow faster than sales? No, I don't, just to be very clear on that.

But second of all, we should call it what it is. We should have done a better job on SG&A in the third quarter. That relationship didn't hold. Now, we'll note, like when we gave guidance, we said that was a little bit anomalous because of some one-time issues or year-over-year comp issues, and so that wasn't going to hold true.

But that--you know, by the way, nor is it going to for every single quarter for the next five years. Like, we're--there's going to be quarters like that, that no company is immune to some of the issues that can distort comps. But over an annual or a multiyear basis, I have a lot of confidence in our ability to do that.

So, how are we going to do that? That was part of your question. Certainly, labor productivity and automation are a couple of those areas. Also, some of the growth areas of our business, if you take advertising as an example, that--the margin profile in that is very different. And as our business mix changes, it allows us to help that leverage as well.

Specifically related to the legal expenses you referred to, I believe that what we called out is that there was about 75 million of legal expense that was unexpected that we accrued in the third quarter. We've got another 25 that we're accruing in the fourth quarter really kind of unrelated to the ongoing day-to-day business activity. Some of these items are related to issues that occurred during the pandemic that we're just now resolving, and so more one-time in nature.

There were a couple other items if I want to focus on what happened in the third quarter. We accelerated a lot of remodels. But you have to remember, at a company our size, it's not just the remodel expense. You've got the travel associated with that. And those--the--those were--there were items there that were larger than what we expected.

And marketing was actually more than we had anticipated going into the quarter. We've got always on marketing campaigns that drive revenue, and so those are very related. But--and we saw more revenue than we expected, but we also had more marketing costs related to that as well.

Rupesh Parikh
And then just on the wage front, since I think that was cited as well on Q3, just any thoughts on had to think about wages going forward at this juncture?

John David Rainey
Wages should be more business as usual as you--and this is probably a pretty representative year, the one that we're in. We'll continue to invest in our associates to make sure that they're paid fairly and appropriately. And that's not an insignificant number over the next several years, but that's contemplated in the plan that we've laid out and the guidance that we've given.

I think a key point about that, though, is that the marginal cost of growth for Walmart is less in the future than what it has been historically. And that's because of the lot of the automation that we're employing. We don't need to hire the same number of people for a unit of throughput or a dollar of revenue than we have in the past. And so, we'll see efficiencies there going forward.

Rupesh Parikh
Great. And then what maybe one more shorter-term question. So, we've gotten a number of questions just how to think about operating margins for Q4. So, are there any puts and takes that you'd share for Q4 specifically, how you think about the interplay between both gross margins and SG&A?

John David Rainey
Well, on operating income, if you were to take, you know, kind of the midpoint of our guidance, I'm taking a liberty here with rounding, but, you know, our operating income is going to grow about half the rate of sales in the fourth quarter.

Some of the one-time--I'm sorry, I said that backwards, twice the rate of sales. Let me actually restate that for clarity because that's a big mistake. Operating income at the midpoint of our guidance should grow at twice the rate of sales. That was a big faux pas there. Sorry. But everybody in the room was panicking on it, so forgive me. But a lot of the one-time expenses that we had--that we incurred in the third quarter we don't expect to recur.

But also appreciate, anytime there's a slowdown in sales, like, we staff our stores and delivery points for anticipated sales.

And we -- our schedule or our staffing is about three weeks out. And so in a normal quarter, when you see a, you know, something increase or decrease, you hit -- you can respond to that throughout the quarter. The fact that we had this slowing in sales the last two weeks of

October gave us zero time to respond to that. And so there were some unproductive labor hours related to that as well that we would not expect to continue in the fourth quarter.

Rupesh Parikh
Great. So switching gears to a couple of deflation questions. So sounds like you believe we could see deflation in the coming months. So what categories within general merchandise are you seeing deflation? Or is it fairly broad base? And also curious on the food side? What's giving your team, I guess, you know, insight at this point that the food side you may also see deflation?

John David Rainey
Well, Rupesh, I want to be clear in my comments here. We're not projecting deflation; we're simply suggesting that it could be a possibility given some of the trends that we've seen. And so let me actually talk about what we're seeing just so everyone is clear on that. If -- well, let's take October, which is the last full month for us, inflation ran about 2.2% across our broad category of items. If you look at food, that was pretty close to the number I just quoted, consumables slightly higher, a couple percentage points higher, general merchandise is down. And so we're seeing deflation in general merchandise right now. And that's been running about negative three in the last week and even stepped down a little bit more than that.

So I expect, you know, general merchandise, if you look at those on a two year comp, they're actually getting back to similar levels as to where they were two years ago. And so I -- we are in a deflationary environment with general merchandise, we could see it in some of the food or consumable categories, but this also gives consumers more ability to spend in a lower cost environment where hopefully they can buy more general merchandise which they have not been buying, at least relative to last year as much in recent periods.

So that's not necessarily a bad thing for our business. We continue to see market share gains, and we continue to see strong traffic. Two of those things, I think, will help us manage through a pricing environment or an inflationary environment -- or a more deflationary environment, I should say.

Rupesh Parikh
And then as you've seen prices move lower both in GM, (inaudible), and the food categories, what do you think overall from an elasticity perspective?

John David Rainey
Yeah, actually, one point that you asked that I did not address this in terms of like categories where we're seeing deflation. So on a merchandise perspective, headphones stand out, that's something that I think the costs are down over 50% -- 40% or 50% year over year. Gaming and media is also something that we've seen lower sales in. And so I think there's -- probably TVs is another one that Kary’s mentioned here in the room.

In terms of other categories and food categories, a lot of this is commodity driven, which is going to swing up and down. And so pet food is something that we've seen has been -- had higher prices, more inflation, pork, berries, grapes, limes, things like that, more inflationary. On the deflationary side, eggs, lettuce, incidentally, also like when you look at, like cat houses and pet accoutrements and things like that, those are things that are deflating, which are opposite than food, which is going up. But -- and so it's kind of a mixed bag. There's not anything that I would say is like a complete category where we're seeing these sweeping changes in price levels.

So your follow on question was -- restate that again, please, Rupesh?

Rupesh Parikh
Yeah, you know, I just have one more follow up for that. So on the general merchandise side, it sounds like if primary electronics where you're seeing the I guess the bigger deflation.

John David Rainey
Yeah, that's fair to say. Yep.

Rupesh Parikh
Okay. That's helpful.

John David Rainey
So you were asking though about the elasticity?

Rupesh Parikh
Yep. Yeah. So just -- yeah. Have you seen prices move lower on both GM, (inaudible), and food categories. Just what are you seeing overall from an elasticity perspective?

John David Rainey
So we've seen good elasticity in GM, but I -- just to be balanced. I don't know that it's fair to extrapolate that on our broader business, because it's been during these times of events and rollbacks and promotional type activity when we know consumers are spending into the holiday period. And so to be fair there, I think a better assessment of that would be in a shoulder period, an off period where we can assess what's happening with the elasticity of demand relative to prices, but thus far, we feel pretty good about it.

Rupesh Parikh
And on the food side is, you know, how are the elasticity is there and some of these deflating categories?

John David Rainey

Yeah, we're up in units. We're pleased with what we're seeing there. That's driven a lot of the growth even in that third quarter. Because like I said, overall and third quarter pressures were lower on a year over year basis.

Rupesh Parikh
And on the food side, is there any, you know, obviously, restaurants, you continue to see inflation there. Are you at all benefiting from trade away from restaurants back to food at home?

John David Rainey
We certainly see so in some of the categories of prepared meals and things like that that we're selling, those have been stronger relative to earlier periods. And so I think, you know, again, consumers' pocketbooks are stretched, they're looking for value and they're looking how to get the most out of their dollar. And our value proposition is resonating with them right now. And our merchants are leaning into these product categories to respond to higher restaurant prices and things like that. I also think our assortment is really improved, particularly like if you think about some of the things that we're doing at Sam's, the quality in certain categories of food that we're providing customers are really responding to. And we see that even in our private brand penetration, which once again, this quarter continued to go up 19 basis points this quarter.

Rupesh Parikh
Okay, great. And then just to wrap up on the topic of deflation, so a key concern in our conversations is Walmart's ability to deliver on its algorithm in the context of a deflationary environment. How do you believe your financial framework would hold up if we are in a deflationary backdrop?

John David Rainey
Yeah. Well, we still are in retail, and so we can't ignore that. And we have to respond to the type of environment that we're in. We have a lot of cost levers, and our focus is making sure that our cost structure matches the revenue environment. But that's just setting like retail and addressing that. I think an important point here are these high growth parts of our business that allow us to continue to leverage, to continue to grow our operating income, even in a deflationary environment.

The price that someone's willing to pay for advertising is less dependent upon what we're charging for broccoli or tennis shoes. And so whether that's inflationary or deflationary, that's, I mean, it's a good example. The price that we charge to fulfill a marketplace order is not going to swing up and down to the same extent that the actual headline price of that unit is. So -- and this, frankly, refreshes what excites me about our business, we're changing. We're becoming more than just a retailer. We've got all of these omni capabilities, that the more that they grow, the more they will be reflected in our P&L. And I'm hoping that the Wall Street community can see the durability in our earnings streams over time so that we're not having huge swings based upon what a head of broccoli cost.

Rupesh Parikh
Okay, great. So now switching to some more strategic questions. As you look at the various alternative revenue streams, such as media, health and wellness, financial services, marketplace, etc. How would you rank the opportunities as you see them today?

John David Rainey
Well, certainly of the ones that you listed, marketplace and advertising standout. We're early on into some of what we're doing in financial services and even health and wellness. But maybe I'll just kind of canvass all of them and talk about them. B2B is one that I think we punch below our weight. We've got a team here that has launched a service around that. I think that's a not insignificant opportunity for us. But very early on, and not one, frankly, that I think investors would be able to detect in our P&L in the next year and 18 months. It's probably the duration or the timeframe in which we would see that have a bigger impact is probably a couple of years out.

Financial Services is one that is close to my heart, I think is a big opportunity for us. As you may be aware, we're at a bit of a standstill because -- with our co-branded credit card and Walmart US right now because of the discussions that we've had with Capital One, but the Synchrony co-branded card is doing quite well at Sam's better than what we've seen historically in terms of how it contributes to our P&L. But the big opportunity here is really digitizing a lot of these financial services that people come into a Sam's Club or a Walmart today to do and allow them to do that with their mobile phone, to put all the power of a bank branch in the palm of their hand.

You can't talk about financial services and not talk about phone pay. Phone pay, it to me is, you know, I think one of the most coveted assets in the FinTech space globally. I'm very bullish on this. You know, this is gonna sound maybe a little bit maybe too optimistic, but I don't see a reason why phone pay can't be one of the greatest FinTech companies in the world outside of China in terms of size and scale. If you look at what they're doing today, they're already doing a level of total payment volume that is on par with what the largest FinTech players are doing in the United States. And their market share is much greater, and I think it's important to note that they're in the largest market in the world.

So the opportunity here is, I think, enormous and they're beginning to expand a lot of the capabilities and services they have, that there's a unique opportunity to do that in India, things like insurance as an example. Credit is an example where there's more whitespace there than there is in the United States. So I think that that is a really significant opportunity for us. We're fair to say still pretty early on in this, but we look forward to sharing more about phone pay in Flipkart with the investor community as they get closer to the timeframe that they would go become public.

On advertising and marketplace, I talked about those a little bit, but big opportunities for us. I gave some stats on what we're seeing in marketplace. You know, that marketplace is allowing us to do -- expand more assortment in categories like home and apparel. Steph, what are some of the numbers on the like the percentage of products that we're providing each of those categories on home and apparel?

Stephanie Wissink
Yeah, apparel, we've got about 200 million items online. Home is about 60 million. (Inaudible) points really important that we offer a long tail of choices in these categories, knowing that our customer base have very different trend preferences and style preferences. And we want to take risk out of our own inventory and extend the assortment and marketplace is a great solution for that.

John David Rainey
Yeah. So, excited about all parts of that.

Rupesh Parikh
And then just on advertising marketplace, we get a lot of questions in terms of how to size those opportunities. Is there any perspectives you can share just in terms of how to think how they could size over time?

John David Rainey
Well, advertising has been growing at a significant rate, you know, this year and last year. I don't see a reason where, you know, that growth is going to slow appreciably. We're kind of matching the demand there to the opportunity that we have. Marketplace, again, we punch well below our weight here without being specific to marketplace, but if we just talk e-commerce broadly, of which marketplace is a component, there's not a reason really that we shouldn't have our fair share of market in e-commerce that we enjoy and brick and mortar today. And that's our aspiration. And I think when we get to that point, those two combined create a more compelling omni channel offering that allow us to grow it from there. So -- and marketplace is a primary vehicle to achieve a lot of that e-commerce growth.

Stephanie Wissink
Rupesh, this is Steph, I would just add one thing on advertising. And that's we're very aware of what advertising can do to pollute a customer experience. And so the growth does have a natural governor on it in terms of customer experience, and we watch that very closely. So you will see us manage advertising growth in a way that is not just based on the poll, but also based on indications from our customer that the experience is remaining elevated, and that we're not using Doug's word polluting our online experience or even our in store experience with excess ads. So the team is really focused on ensuring that these ads are whispers and nudges and not kind of bold proclamations of advertising in the face of the customer.

John David Rainey
Yeah, to say that differently, because of the margin profile of advertising, you know, it can become drug-like and, and one could focus too heavily on that. And that could pollute or deteriorate the overall customer experience. And so we're focused on the latter, making sure that we're preserving the nature of the customer experience, always putting them first. I think advertising plays a big role there, but it should not play an outsized role. We've talked earlier -- before about being one of the top 10 largest advertisers in the US. I think that is one way to think about us, but it's complimentary to what we're doing in our business and high margin.

Rupesh Parikh
Okay. So it sounds like both advertising and marketplace, you're still very -- in the very early earnings in terms of the potential there in both areas.

John David Rainey
I think that's a fair way to describe it. If you were to pin me down and say what inning of the ballgame are we in? I -- you know, I'd say marketplace, we're probably the second inning, advertising, maybe the third.

Rupesh Parikh
Okay. Great. And another area that I wanted to touch on is just automation. So you've been very vocal on Walmart's automation efforts and how these should help to improve margins over time. Quick -- can you quickly recap for us the key benefits from automation that we should be thinking about going forward?

John David Rainey
Sure. Well, when we automate these stores and distribution centers, it allows us to operate a lot more efficiently at a much lower cost, and it increases the throughput. So if you take one of our distribution centers in the existing footprint that we're retrofitting with this automation, we have essentially twice the capacity. We can also deliver twice as many items and a particular day, so it makes us a lot more efficient in our ability to serve our customers and and fill our stores.

One of the things, and you saw this, Rupesh, because you were there in Florida with this, but when a pallet is loaded in an automated fashion by a robot, and then is loaded on a truck, and then that store receives it, there's a tremendous benefit in the unpacking of that pallet. If you were to go into the back of one of our stores and see when we unload a truck, it is perhaps the most manually intensive effort of anything that we do in our stores. We literally put out these trays with rollers, and we get 15 or 20 people in there that are unpacking these trucks, and many times, when they're not pallet sorted the way they are, there's merchandise strewn all over the truck, and we've got to figure out where it goes in the store.

The pallets come pre-sorted by, in some cases, where the merchandise goes in a particular aisle, and so it reduces as much as 80% of the effort in the store itself to unload and sort this pallet. So it's a tremendous benefit for us, and the way this translates into the P&L is it allows us to grow at a much lower marginal cost. So as we think about having 4% sales growth over the next few years, in the past, if you would have ascribed some marginal cost to that growth, whatever that marginal cost is, we think can be much later, much lower, I should say.

In the fulfillment category, we said that the automation that we have will reduce the fulfillment cost by roughly 20% over the next three to five years. And so all of these things translate into a stronger, more durable P&L that we're quite excited to roll out. We said at Investor Day that roughly 55% of the fulfillment center volume is going to be automated by the end of FY '26, so in three years. And almost 70%, 65% of our stores are going to be served by this automation. So it's a very different way of thinking about resourcing a store or a distribution center than what we have today.

Stephanie Wissink
Rupesh, it's Steph. I would just add on inventory precision and in stock levels, it's incredibly important as we fulfill more of our online business from our stores for online pickup and delivery, but also ensures our customer experience in store. There's nothing worse than walking a customer out the front door with only a partially filled list, because we know they're going somewhere else to find those goods. So this is hardware, as John David talked about, and that you saw in the Brooksville distribution center. But it's software and data to drive incredible precision in one of our biggest expense structures next to people. Inventory is our biggest cost, and so we want to drive improved working capital utility through the inventory that we have, while also serving customers to fill those complete lists.

Rupesh Parikh
Great. Thank you. So I mean, this is probably a crystal ball question. So obviously general merchandise continues to (inaudible) challenge at Walmart and really everywhere in retail, just how are you thinking about the potential inflection back to positive trends?

John David Rainey
Well, I mean, to be frank, I don't know. I think a lot depends upon what happens in the economy, what happens with employment, real wages, a lot of things like that, even what the Fed does. I would assume that we gradually get back to a more normalized environment over the coming quarters. I think we're kind of at that point right now, but there's a lot of dependencies or items that could influence that and I don't know. The takeaway that I would want all of you to know is that we're planning for every environment, and we think that we can handle virtually any environment that that's out there and that our relationship between operating income and sales is going to continue to demonstrate what we've done over the last 12 months and that our value proposition is still going to resonate. So whether we get back to a normalized general merchandise environment next quarter or in three quarters, I think we can handle that.

Stephanie Wissink

Rupesh, I would add that within general merchandise, big ticket is underperforming low ticket and Great Value is outperforming, obviously, not Great Value. So I think there's an element too that the customer is being incredibly discerning with the general merchandise dollars they have to spend. It's not that they're not spending it all, they are spending. So we're making sure that we're designing our assortment to really lean into those areas where they know they're opening up their wallet and you're going to see that more acutely pronounced in the fourth quarter.

Our merchants are really motivated to bring great value into the holiday season and things like tabletop and décor, giftable items, even self-gifting apparel, we're starting to see some traction when we bring things forward to the customer. We're not asking the customer to borrow to spend on some of the big ticket areas. So we're definitely seeing some progress there in terms of unit velocities.

Rupesh Parikh
Great. That's helpful color. And I want to make sure I get a Sam's Club International question in. So on Sam's Club, you've seen significant membership and share gains over the years, where are the bigger opportunities left on the membership side and share gains as you look forward?

John David Rainey
I think there are a lot, and to be clear, we've got some pretty grand plans and high aspirations in terms of what we'd like to achieve in Sam's Club. We're really pleased with what they've done over the last three years and even what they've done this year, but we're not settling with that. In our plan, we assume that there's new clubs that are opened, but we're also continuing to improve the assortment, and importantly, perhaps most importantly in this answer is improved the member experience. We are, I think, fairly unique in the digital experience that we have for our members when they come into one of our clubs.

Roughly a third, that's probably a little high, let's call it 30% of transactions that take place in the Sam's Club are done with scan and go, where you use your mobile phone to scan those devices and you walk out without having to go to a register. There's a great experience, and don't just take my word for it. The NPS on that experience from our members is 90. There are few NPS scores that I'm aware of that are that high. There are few brick and mortar type experiences that have that high of a digital penetration that I'm aware of. There's probably a few coffee shops and things like that that you can point to, but this is something we want to continue to grow. And again, it points to a better member experience but also a lower marginal cost if you think about where we incur costs in the store, and what we're relying on to actually let someone go in and shop and checkout.

Rupesh Parikh
And then just on international, strong momentum really in all your key geographies. How do you feel about the sustainability, the top line momentum and the ability to continue gaining share internationally?

John David Rainey
Yeah. We said at Investor Day this spring that we expect international to grow faster on the top line and faster on the bottom line than the rest of the business. We talked about an aspiration of $200 billion in GMV, which I don't think is unrealistic at all in the next five years and more than doubling the profits, and so it's a huge opportunity for us. Our international footprint is relatively good right now. I think we like where we're operating in. There's always some opportunities to tweak things, but Walmex continues to be a fantastic business down in Mexico and Central America.

China, we talked about China having 25% growth in the most recent quarter. And then I touched on India with my phone pay comments, but we had the Flipkart team in here this week. We went over their plan. Again, a lot of the same things I said about phone pay, I can say about Flipkart. This has been a great acquisition for us, and the teams are working more and more together to leverage the strengths of each of our businesses.

Rupesh Parikh
Great. And now to wrap up with a couple of financial questions. So obviously, a strong year for Walmart this year, really in all parts of your business. As we look towards your next fiscal year, and again, not looking for specific guidance, are there any initial puts and takes you would encourage us to consider as we look out to next year?

John David Rainey
Not really. I think as we think about our multiyear plan and beginning with next year, there's not a lot that I think has changed relative to the time that we first laid out this plan. The only notable thing is what we talked about yesterday, where maybe consumer health is slightly different. But look, you're putting out a five year plan, you're going to have to deal with presumably some type of economic cycle or variations in the economic environment. We're prepared for that. That was contemplated in the guidance that we gave.

We're not always going to hit the algorithm number each quarter. There's going to be things that affects that. Every quarter may not be 4% sales growth. But when you look at our business and the way that it's changing, and the way that we're driving growth in some of these higher margin areas, we believe that we can hit those numbers over the long-term. So nothing to say that I think is any different than when we laid this out last spring. The only thing I'd want to point out is that we talked about sales growth of roughly 4% on average over the next five years and operating income growth is greater than that, and that was depicted as a range of 4% to 8%.

When you think about the, like, if you take advertising, going back to that question, advertising is a smaller part of our business today than it will be in five years. So it's fair to assume that because of that margin profile, five years from now, is the likely period of time when you're seeing us get to the upper end of some of these ranges that we talked about. I know we certainly have the aspiration of trying to do that right now, and we've seen really good momentum in the business this year. We expect that next year, but we shouldn't just jump to the top end of that range right away, because we need to grow into some of these businesses and their margin profile.

Rupesh Parikh
Great. So that's a good segue, just to dive deeper into your financial algorithm. So your team appears very confident driving the 4% top line, and the operating income growth almost double, potentially double that as early as next year. So clearly, after yesterday's report, there appears to be more skepticism in achieving these targets. What do you see as risk in being able to deliver the top and bottom line delivery? Is it primarily macro at this juncture? And on the other side, where could the biggest source of upside come from?

John David Rainey
Well, I feel really good about what we're doing, what we can control and how the team is executing. And in fact, relative to 90 days ago, last time we had an earnings release, I feel better than I did about that category. The team is performing really well right now. So I feel good about that, but we're not immune to macro pressures. I don't know exactly what that looks like next year, so it's tough for me to say at this point in time, what those numbers would be.

You know I'm certainly not going to give any indication of guidance on this call, but there's nothing about what's happened in the last part of October, or anything that we've seen thus far, that makes me think differently about our ability to deliver what we promised earlier this year. And we'll see what those numbers are as we get out into the end of the next quarter, and we give some guidance on the full year, but the macro pressures are really the only thing that I think is different than what we've talked about, and we'll navigate that environment.

Rupesh Parikh
Just on capital allocation, would love to hear just the latest priorities there. And just as I look at Walmart, to the extent that there's capabilities or areas that Walmart does not have expertise, just curious on the openness of M&A as well, openness to M&A as well.

John David Rainey
Yeah, so we want to be balanced in our capital allocation, including share buyback, dividend and investing ourselves with CapEx. We've got high ROI, high return on investment opportunities to invest in ourselves. And so we've pivoted a little bit more in that direction in the more recent periods, but we also want to return capital shareholders. And we're very conscious, like, even looking today at where our stock price is around the opportunities in that category, so we'll continue to do that.

When I look at our plan going forward, I don't see, and this is addressing your inorganic growth comment, I don't see an area that I feel like we need to go acquire a capability externally or a company externally to achieve that plan. So I think it's more around tuck in acquisitions, things of that nature, that give us additional capabilities that are complementary to the organic path that we're on.

Rupesh Parikh
Great. So in the last two minutes, I'm going to try to sneak in this question. So on the call yesterday, there wasn't as much about Walmart's expectation for the holiday season. So it sounds like you guys do not expect a more promotional environment, but is there anything you can just share in terms of how you think about the holiday season this year, and any differences you see this year versus maybe what you saw last year?

John David Rainey
Because of inventory levels, I think it's probably less promotional than it was last year, but we feel good about going into the holiday season. We're staffed appropriately. We've got our merchandise where we want it. In stock levels are where they need to be. Inventory is in the right place. We're prepared. We're ready to serve our customers and members, and we're excited about what the holidays hold.

You can imagine, and this is still relatively new to me being in retail, but there's a lot of people that hold their breath through the holidays, because you're looking at those trends every day to make sure that we're executing and delivering what we need to do. And so this is a very important time for us. And it's it's one that I acknowledged yesterday, maybe there's more variability than a normal quarter for us, because of some of what we seen. But we're excited, ready to serve our customers and members.

Stephanie Wissink
Rupesh, this is Steph. I would just add to kind of close out this call with a little bit of levity, we're really excited about how we're communicating with our customers as well. And we introduced a marketing plan and a marketing campaign that's driving a lot of excitement because it's changing the cultural conversation around Walmart.

John David Rainey
Mean girls.

Stephanie Wissink
Yeah, so we encourage you to take a peek at that. That's been a really important attribute of how we evolve the way customers think about us, just in terms of driving incremental mindshare.

John David Rainey
Yeah.

Stephanie Wissink

But also, we're matching it with great assortments, and I think our merchants feel as good as they can about the value that we're bringing. Toys is a great category that we want to win the season and win the season has been a theme all year that our merchants have used, and it's worked really well for us. We acquire customers, we build trust, and we drive experience and memorability and we're doing that with a wraparound of marketing this season as well.

Rupesh Parikh
Great. So that wraps up today's call, so thank you, John David, Steph, and Kary. And thank you, everyone, for joining us. And once again, we'd like to thank Walmart for their support of our military veterans.

John David Rainey
All right. Thank you, Rupesh. Thank you, Jamie. I hope everyone has a good Thanksgiving.

Jamie Brunner
John David, Steph, Kary, Happy Thanksgiving.

John David Rainey
Thank you.

Stephanie Wissink
Thank you, you as well.

Rupesh Parikh
Thank you.