Walmart
Fourth Quarter Fiscal Year 2024 Buy Side Investor Call
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Presenters
Steph Wissink - Senior Vice President, Investor Relations
John David Rainey - Chief Financial Officer
Seth Dallaire - Executive Vice President, Chief Revenue Officer

Q&A Participants
Steve Shemesh - RBC Capital

Operator
Greetings. Welcome to Walmart's Fourth Quarter Fiscal Year 2024 Buy Side Investor Call. At this time, all participants will be in listen-only mode. If anyone should require assistance during the call, 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. Steph, you may now begin.

Steph Wissink
Thanks, Rob. Good day, everyone. I'm going to begin with our safe harbor statement. 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 from our Q4 earnings yesterday 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.

I'm going to turn the call over to John David. And then Steve, we'll turn it back to you to get going.

John David Rainey
Thanks, Steph. And thanks, Steve, for hosting the call. I appreciate everybody joining this morning. A couple quick comments here. We're really pleased with the performance in the last quarter. I think the financial results speak for themselves, but what's underlying that is really strong operational performance by the team.

We're exceedingly pleased with how the team performed in the quarter, and also the response from customers. NPS scores during the busiest time of year for us from customers were at all-

time highs. And it really shows that the value proposition for Walmart is resonating very strongly with our customer base, and that's reflected in the share gains that we see in virtually every category.

Quickly, like you can look at a number of different metrics, but because of the capital that we've been spending, we're acutely focused on our returns, our return on investment. And we were pleased to end the year at a 15% level, which is a level we've not seen since 2017. We're also pleased to be able to increase the dividend by 9%, which is more in line with the earnings growth that we have. So, I think there's a lot of positive signals about the business, and we're encouraged with how we ended the year and how we're leading into this coming year.

I think most notably is the improvements we've seen in e-commerce in some of these I'll call them newer businesses that we have. And we're excited today to be able to expand more on that, particularly advertising and the Vizio acquisition. So, Steph, I'll turn it back over to you.

Steph Wissink
Yeah. Thanks, John David. So, we have a special guest joining us today from our Walmart U.S. segment. Seth Dallaire is our Executive Vice President and Chief Revenue Officer. He's responsible for Walmart's new revenue generating businesses, including Walmart Connect, Walmart Plus, Walmart Data Ventures, and our business partnerships.

Seth joined Walmart in 2021 after serving as Instacart's chief revenue officer. And prior to Instacart, he's held several leadership positions and roles at Amazon over nearly an eight year period, including their vice president of global advertising sales, where he launched advertising and Amazon's Retail Media business. So, we're thrilled to have Seth join us today.

We're going to kick off a bit with just Seth talking a little bit about Walmart Connect. This was one of the areas that we had received a number of investor questions yesterday and even into today, we would anticipate. So, we thought it would be helpful for Seth just to give us a little bit of a state of the union on retail media.

Seth Dallaire
Thanks, Steph. So, retail media, which includes Walmart and other retailers, is interesting to marketers because you're able to attribute sales transactions and cash register activity, whether it's happening digitally or in an e-com environment or physically in a store environment, to marketing investments. And that level of attribution allows for proof that the marketing investments that you make, whether they're in an app, on a website, or on a television, are actually performing and convincing consumers to try a service or try a product.

And that's compelling because it's different than the way that media has worked traditionally. If you think about traditional linear broadcast television, an advertisement that may run while you're watching a sports program or watching a rerun of a television show does not have the ability to trace a--or bring a transaction event to that exposure that the consumer sees.

And so, there was--there have been historically many question marks about the effectiveness of media, because I bought the television commercial or I spent money on advertising somewhere, but I don't know whether it actually helped sell more shampoo or sell more services for mobile wireless subscriptions, things of those nature. And retail media helps answer those questions.

Now, the thing that makes retail media so exciting at Walmart is that we have a strong business in e-com and, as John David mentioned, we're making improvements there, and customers--we have more and more customers choosing to shop with us in that channel. And as we bring more traffic into our dot com store into the app, it gives us more opportunity to help serve our customers better by giving them more contextually relevant advertising. But then the brands that are investing in those ads can see that, when a customer is exposed to the ad, that they actually take an action and buy the product. So, closing that loop is really important.

At Walmart, we also have a large physical store business, and that's what makes our retail media opportunity unique, is that we can invest to make sure that the consumer behaviors that we observe, either in the digital space or in the physical space, are actions that we can attribute to those marketing investments. That, given our scale, is unique and really exciting. So, we've been investing pretty heavily there in retail media, and you've seen the results.

Steph Wissink
Steve, we'll turn it back over to you.

Steve Shemesh
Perfect. Thanks. So, yeah, this is Steve Shemesh, RBC's U.S. hardlines, broad lines, food retail, and e-commerce analyst. First, up front just wanted to thank John David, Seth, and Steph for the time today.

Seth, another question for you. I mean, it seems like advertising in general has been somewhat of a buzzword, particularly over the last year in retail. So, you know, what makes Walmart Connect unique among retail media models?

Seth Dallaire
Well, the unique nature is really the ability to bring scale, and then also scale across digital and physical channels. No one else can do that. And that's what's so exciting for us in terms of the investments we're making, but then also for the brands, the marketers and suppliers that we're talking to who are investing in those products.

If you're a brand and you invest with us, and you can then determine with real sort of transactional truth that an event took place post exposure to that ad, someone bought the shampoo in the app or someone bought the shampoo when they came through store and rang at the register, that is a new opportunity for marketers, and it is unique to Walmart.

Steve Shemesh
Got it. And you talked about performance marketing and how advertisers and brands are looking to derive greater value from their ad spend. I guess how important is attribution and purchase data in the competitive backdrop for ad share?

Seth Dallaire
I think it's critical. And were you to poll a group of brand marketers or advertising agency holding companies that are the center of demand in where they're placing their advertising investments for brands, they would tell you that the future of advertising is one that has more emphasis on data and attribution. And if you don't have those--a strong signal around some type of attribution, you'll be at risk of not earning investment.

And you can see those shifts happening over time, where money's moved into search performance marketing and then money's moved into social media performance marketing, and now you have this wave of retail media where you can actually see transactional events happening and consideration happening. All of the traditional marketing funnel definitions are observable in the retail media environment.

So, that's critically important for the future. And if you work with a retailer like Walmart, where you have scale and that omnichannel combination, that is really enticing for brand marketers because it just hasn't existed before, where you can look at attribution across channel, up and down, top to bottom, through the marketing funnel.

Steve Shemesh
And then I think the natural next question and probably what's on everyone's mind at this point is, you know, the Vizio acquisition. How does that accelerate your Walmart Connect strategy overall?

Seth Dallaire
Well, we're really excited about the potential of the acquisition because it does fit squarely into our strategy. By owning Vizio and Smartcast, their operating system, we'll be able to create new opportunities for advertisers to connect with our customers. And we'll give those brands the opportunity to speak to customers in new compelling ways through a larger form factor in the television that sits in the living room of our customers' homes, and then we'll be able to add all of the attribution that I mentioned before to those exposures, which is something that's exciting.

And that--I would also add that, for our customers themselves, like Vizio is a really popular product with our customers. They offer a great experience for consuming digital media and television and entertainment content at a great price point. It's EDLP. So, it fits in with our strategy both from a advertiser perspective in that's complementary to what we're doing so well in our apps and our dot com business, but also for our customers, who just love great products at low prices.

Steve Shemesh
That's great. Thanks, Seth. Appreciate those comments on the retail media business and Vizio acquisition.

I'd like to shift the conversation over to you, John David. You know, I think a logical place to start the call is on the consumer. You know, there's a lot of conflicting consumer data points floating around out there. We have debt delinquencies on the rise. Private label penetration is ticking up. But at the same time, wage growth seems to be serving as--somewhat as an offset there. You know, your top line trends have remained pretty robust, but you continue to describe the consumer as being choiceful. So, can you give us a state of the union on what you're seeing from a U.S. consumer standpoint? And directionally, do you think the situation is improving, unchanged, or worsening?

John David Rainey
Directionally, Steve, I think it's consistent. It's hard to say that we're seeing some departure from what we've experienced in the last few quarters. I've been surprised for the duration of last year at the resilience of consumer spending.

You alluded to this in the question, but I think it's in part because of where jobs are right now. For every two people that are unemployed in the United States, there are three available job openings. And so, this is not some type of jobless recession, and I think that that's influenced the level of consumer spending in the economy.

Even the January retail sales report that I think caused some to maybe have a little bit of concern about slowing of the economy, I suspect a big part of that was weather too. We saw that in our business. Overall, January was pretty consistent with the rest of the quarter, but there were some anomalous weather days that impacted the consumer.

And so, back to the macro point here is that consumers have been choiceful. They're--we're seeing changes in their behavior. Basket sizes are smaller. They're being more--using more discretion with the larger ticket items, but they're shopping with us more frequently. And importantly for us, we see that we're gaining share in many, many categories in all income demographics.

And so, it's unclear maybe where we go from here. I don't think I'd be so bold to say it's that we're seeing significant improvement or significant deterioration. I think it's consistent.

Steve Shemesh
Got it. And I guess to kind of build on that last remark, as we think about fiscal year '25 guidance, are there any embedded assumptions about whether the U.S. consumer environment gets better or worse?

John David Rainey

Well, it's an interesting question, particularly in the context of where we were year ago at this time, because I think a year ago the broad consensus in the economy was that we were going into recession. And so, we were planning with an assumption that maybe we augur into some type of environment that's--that was less favorable as we went through the year.

That's not the case now. I think, again, consistency is that--is the characterization that I'd choose. We don't expect a recession necessarily, but we don't expect a sharp rebound in economic activity either.

Steve Shemesh
Understood. And I think probably given the macro backdrop, probably one of the harder things to manage is transactions verse ticket and volume verse price. You know, one of the things we've pretty consistently heard from our supplier contacts is that volume trends have been slow to show signs of improvement despite the disinflationary or deflationary environment, depending on the category. So, can you speak to that dynamic, specifically how units are trending relative to internal expectations as pricing has come down?

John David Rainey
Sure. So to decompose the basket a little bit, I talked about units per basket being down, that's been pretty consistent over the last year. What's offset that, though, is average unit revenues, or inflation, and that's maybe average ticket, the greater on a year over year basis until this most recent quarter. So you've got a change in the dynamic as it relates to pricing.

Transactions, though, have more than offset that. And so when you've got units per basket down but transactions offsetting that, we're still growing units. And so we've been really pleased about what we've seen there. I think part of it is a result of some of the share gains that we've seen. And so the plan for this year is pretty modest inflation in the basket with continuing to push through units.

I hope to see some elasticity. I think we've seen some signs of that right now. But to pause on that, for a second, like the mix effect in our business, it's been a headwind over the last year as more consumer dollars have been focused on grocery versus general merchandise, and that's created a headwind for us, we expect that on a unit basis to improve this year. But because of the deflation in the general merchandise categories to the effect on $1 basis on a--for us, is that we're still going to have mixed pressure this year of 80 to 100 basis points.

Steph Wissink
Steve, it's Steph. Just to put some context on that mix shift, because this is an important point, over the course of the last several years, we've had about 600 basis points of mix shifts in our business. So it's a pretty substantial rotation in the categories that are driving the revenue and would have negative bearing on our overall gross profit margins. So we're seeing some gross profit margin lift in the business because of other drivers. And I know you're going to ask about that, but just wanted to make the point that over the last year, it's been significant. But over the

last several years, it's even been more pronounced, this large shifts in our business, in terms of composition.

John David Rainey
One thing I'd add--

Steve Shemesh
--I think I--

John David Rainey
--Well, Steve, real quickly, one thing I'd add to that, though, is, you know, we're talking at an enterprise level, there are parts of our business that we're quite excited about. And marketplace is what add reference. We saw a 45% growth there in the most recent period. But when you look by category, particularly in general merchandise categories, there are areas of our business like furniture, sporting goods, pet supplies, that are seeing 50%, 50% year on year growth. And I can give you a list of 30 other categories that are all high double digits.

And so this is I think an example of where we're gaining share where customers are shopping with us digitally today, e-commerce, where historically they have not. And so while there's a lot going into what's happening from a general merchandise perspective, we're doing really well in our e-commerce or marketplace business here.

Steve Shemesh
Great. And I'm sure that marketplace allows your merchants to be a little bit more focused while still having that very long tail of products available.

John David Rainey
Exactly.

Steve Shemesh
Another thing we've been hearing from our supplier context a lot about is 2024 being a year of innovation. And I guess full disclosure, we've heard this for the past couple years. But in theory, you know, you had demand, so you didn't need innovation, then you had supply chain disruption. It feels like this is kind of a somewhat normal environment where you can push a lot of that innovation into the year, which in theory should help with unit and transaction growth and maybe some pricing. Just curious, is that consistent with what you guys are seeing in the marketplace?

John David Rainey
Yes, we are seeing innovation among suppliers to try to push more units. I think everyone recognizes that you can't continue to push the pricing lever in perpetuity. There is a breaking point. While prices are down year over year in many categories, they're still high. They're still higher than where they were two years ago. And so ultimately, you've got to push more units

through, and innovation is a way that many of our--many of the national brands are trying to achieve that. Steph earlier this morning pointed out to me that there's now vegetable flavored Cheerios, which is new to me, but that's maybe one example of the type of innovations that we're seeing.

Steve Shemesh
All right, vegetable flavored Cheerios. Okay. I think, you know, I'd like to switch the conversation over to--back towards guidance a bit specifically for Walmart US. And as I think about fiscal year '25, you know, the benefit from grocery inflation is flattening. You have health and wellness, which is coming up on much tougher high teen compares. So can you walk us through some of your segment level expectations for the year? And I guess I'd have a particular focus or interest in your ability to drive continued unit growth in general merchandise.

John David Rainey
Sure. What we talked about on the call yesterday is that, if you look at my segment, both the US and Sam's are kind of in line with what we're talking about--what we guided to at an enterprise level with international being higher than that. Really pleased with the progress we've made in international over the last year. We called out on a few of the calls yesterday the higher growth in both sales and operating income. We expect that to continue for the next several years.

But to the point on general merchandise, a big part of this of our plan is continuing to grow general merchandise. I even refer to that in some of the key drivers of our long range plan that I talked about in my prepared remarks yesterday as we as we move back to maybe a more normalized pricing environment and we expand further into general merchandise in these categories that we've talked about.

Our assortment is dramatically improving, not just online through our marketplace, but also in our stores. And perhaps you'll get into a question about our remodels later. But it's a very different Walmart when you go into one of these remodeled stores, not only from the experience, but also the broad assortment around fashion and other categories like that, that we have such big part of our plan this year.

Steve Shemesh
We'll definitely get into some more depth on those remodels in a bit. I did want to touch on something you mentioned on the call. This has been pretty consistent theme over the past couple quarters is the high income share gains. That's been a big part of your success. Those households earning over $100,000 a year. You talked a bit about this income cohort contributing to general merchandise share gains this past quarter. Could you expand a bit on how this customer is shopping the store? I think you spoke early on about them coming into grocery and you wanted to get them into the rest of--into the rest of your merchandise.

John David Rainey

Sure. This is I think one of the more exciting parts of our story right now. Obviously, in this most recent period of higher prices, as well as in prior periods where prices have gone up, you see some share shift or some gain from these higher income demographics as they're looking for affordability, looking for value. In the most recent period, we've seen that not only in grocery, but importantly in general merchandise.

And so to be very specific on this, two-thirds of the share game that we had in general merchandise in the most recent quarter came through high income consumers, defined as those making more--those households making more than $100,000 a year, and through digital channels. So this demonstrates that this is a very different Walmart than who we'd been historically.

I think importantly, the obvious question that I would have is like, well, how sticky is that? Will you retain those customers? And what we hear from our customers is they're not just coming to us for lower prices, for value. They're also coming for convenience. In fact, when we survey our customers, the mindshare scores for convenience are just as high as they are for value. And convenience is something that persists through any type of--or the importance of that persists through any economic cycle and matters to anyone irrespective of what their income level is. And so I do think that we will retain more of the share over time.

Steve Shemesh
I'll go out on a limb here, but any specific data points that you can share on, you know, that high income cohorts specifically and, you know, whether it's repeat purchases or Walmart+ penetration that would make them you know, stick a little bit longer?

John David Rainey
You hit the nail on the head. So one of the things that we focus on that ties with the level of engagement is the frequency in which they're visiting us. And we're very focused on attracting biweekly and weekly customers. And there are several different indications of someone's propensity to do that. An app sign on for the first time, the first time that someone does scheduled delivery, first time someone does scheduled pickup, these are all indicators of someone's likelihood of propensity to be sticking with us.

Walmart+ is one of the best examples of that. And so as we see members come to us, see value in the subscription benefit of Walmart+, there's an inherent stickiness to that. So it's much--there's much more comfort in the level of stickiness around that than there have been in prior periods.

Seth Dallaire
And maybe if I can just build on that with Walmart+, John David's point around convenience is really important.

If we're offering a member or a customer the opportunity to have their groceries delivered for the first time that's at the -- a new interaction or relationship that we're starting with a customer that may be in that higher household income bracket, then we, if we deliver well for them and meet their expectations, they come back, they join as a member, we get recurring revenue streams from the membership. But then we also get the opportunity to introduce them to other categories in our business, such as general merchandise. And those may be categories that these newer to Walmart customers had not considered previously or had been giving to other retailers.

So it's an entry point for us where we have the opportunity to delight the member with a delivery experience that's really second to none. And then we -- as a result, we've earned the opportunity to introduce them to other areas, like general merchandise or apparel or investments that we're making both in the store or in the marketplace where we've dramatically expanded our assortment as well.

Steve Shemesh
Yeah. I think it would be hard to argue with the fact that it shouldn't be a little bit more stickier at the very least this cycle. I did want to circle back to the remodels we alluded to before. So you completed close to 600 [ph] remodels this past year, you're planning for another 650 this year. I know there initially was a one off 20% lift (ph) stat (ph) floating around out there, which I'm sure we can walk back a bit, but anything you can share on how some of these more mature remodels are performing?

John David Rainey
Sure, well, suffice to say that I don't think anyone expected that we would see a 20% lift for any duration. We have been pleased and have seen that kind of lift for some period of time in some of these stores. And it's an indication that it's different than before. These are different remodels than what we've done historically. We do see persistence, though, to the sales uplift. One, on the stores that we've been able to monitor for some period of time, and some of the newness wears off. But to me some of the more interesting aspects of this are not just what it does to the store itself, but what it does to the surrounding trade area.

So where we go into a trade area, and we do a remodel of one of the stores, we see an uplift in the catchment area that surrounds that. Just as importantly, we also see an uplift in the level of eCommerce activity in that trade area. So there's a symbiotic relationship to this, where it's not just improving the store, but also the area around it and the eCommerce activity as well. And so this gives us quite a bit of conviction as we go down this path of remodeling some of these super centers in our network.

Steve Shemesh
Great. And I think one of the more, I don't know if I want to say important, but kind of differentiated comments you made yesterday on the call, you highlighted four key areas that you expect to contribute to incremental profits. Those were business mix, productivity benefits from your supply chain transformation, and automation improvements. You talked about product mix

and then geographic mix. And as part of that first point, you said that you expect global advertising and membership will alone represent 40 (inaudible) of annual operating income in fiscal year ‘25. I think that target speaks to the power of Walmart's new model. Can you maybe elaborate on this opportunity and perhaps provide a little bit of perspective on the expected contribution of advertising versus membership income?

John David Rainey
Sure. These are both high margin opportunities for us along with some of the other aspects of our business. The fundamental takeaway around this though is the durability of our business model is changing for the better. These are higher margin, high growth opportunities for us that are inflecting our margins upwards, and they're not as susceptible to some of the whims of the economy or what's happening with traffic in stores because it's a different type of income stream. And so when we've talked about the ability to grow our operating income faster than sales, it's a big part of this. So quite exciting parts of our business.

And I think importantly, like one has to ask like, okay, I understand the higher margin, but why do you think you'll be successful around this? And this is like, a fundamental aspect of our business is like, we've got a brand that's been around for 60 years that is known for trust. And we have a very high level of customers that engage with us each week. And so if you're a new company in Silicon Valley, and you've got this great technology or a great advertising aspect of your business, what you're trying to get to go after is customer acquisition. We have hundreds of millions of customers that are transacting with us already each week and we're simply giving them capabilities to interact with us, to shop with us in the way that they want, and that's unlocking some of these higher value revenue streams or higher value profit streams for us. And so fundamentally, the durability of our earnings profile is changing for the better in our business.

Steve Shemesh
And you talked about this a little bit before, but, you know, these alternative revenue profit streams have somewhat masked the fact that general merchandise has been a little bit weaker. Comp negative for eight quarters yet the enterprise gross margin has actually held in pretty well. It expanded 30 BPS year-over-year in fiscal year ‘24. Can you help shed some light on how much of business mix has kind of helped offset some of the pressures from general merchandise weakness? And, I guess, just as we think about the macro potentially improving fiscal year ‘25 and beyond, how much of an opportunity is, in addition to, you know, these alternative revenue profit streams?

John David Rainey
Let me start with a prospective comment, and then I'll give some comments around what we've seen in our business. Prospectively, this is one of the biggest drivers of our gross margin improvement. Our product margin, our merchandise margin, we're not assuming that we're going to grow that because of raising prices. That's absolutely not what we're expecting in our long range plan. The gross margin improvement is from the contribution of these other aspects

of our business like what Seth has alluded to. And so prospectively, that will be a very large driver of that.

As we look back over the last four quarters, there's been a lot of noise in our business, as you've seen periods where there's been more elevated markdowns, things like that, that have obscured some of the impact of this. And so in the most recent quarter, it wasn't as -- the business mix specifically was not as big of a driver, but that's because we were lapping an anomalous period in the fourth quarter last year. And so they've been contributors, but not to the extent that we expect in the future.

Steve Shemesh
And another area we've gotten a lot of questions from investors so far is on eCommerce. You kind of --you talked at length on the call about profitability, lower eCommerce fulfillment costs and densifying the last mile. Can you talk a bit more about the steps still required to get to break even?

John David Rainey
Sure. Well, there are several interrelated components here. One of which we've talked about with advertising being a profit or an improvement driver here. But the biggest piece that I think to focus on right now is the level of automation that we're putting into our FCs, our DCs, and the knock on impact or improvement we see in the productivity in our stores themselves. We're still relatively early on in this journey. If you just think about our FCs, we've only done the new automation in five of the 31 that we have. And so as we automate more of those, you'll see more of the improvement in the unit economics of delivering a package to a store, to a customer.

We talked about a 20% improvement and the economics around delivery on this cost or more specifically fulfillment on this most recent call. We'll see more of that as we automate more in the future as well. You have to recognize like, when we automate one of these FCs, we see that they can have twice the capacity and twice the throughput of an existing FC in that same footprint. And so this is a tremendous benefit for us in terms of the efficiency that we achieve by delivering packages to customers. So this is a big driver.

But there are other aspects of this as well. Density is one. The more customers that are coming and availing themselves of our services, buying merchandise with us, the better it is for us as we can deliver, like the example I give is, we've got a driver that's delivering five packages on a cul-de-sac instead of one package on a cul-de-sac.

Steve Shemesh
Got it. So additional automation and densification of the last mile feel like the two kind of big opportunities here, which will take a little bit of time, but certainly you're making a lot of progress against your automation targets. If I think about the story, the Walmart story, I think one of the core differences of the new model is it's not solely reliant on cost cuts. Can you share some thoughts on how we should be thinking about the SG&A line in fiscal year ’25 and then beyond?

John David Rainey
I'm happy to. One of my big focuses is on our incremental profits -- incremental profit margin each quarter.

But I look at that on an operating-income basis versus just focusing on GP or the SG&A leverage. And that's because the composition of our business has changed, as I've mentioned. As we have advertising that's contributing to a gross profit improvement, but the costs of that are in SG&A. And so that's, perhaps, the easiest example. But there are other examples like that.

And so, we expect to see some, over time, SG&A leverage, but probably not to extent that the street appreciates, because our business is changing from where it was five years ago. Like any company, we have opportunities to be more efficient. And we're very focused on our own efforts around that. So I don't want to suggest otherwise, and suggest that we are exactly where want to be, from an SG&A perspective. But that alone will not be the driver of our profit improvement, because of the business changes that we're making.

Steve Shemesh
And one of those opportunities to be more efficient, I'm sure is on inventory, which has dramatically improved the past few quarters. Can you discuss how much of that has been a clean-up after supply chain disruption versus actually becoming more efficient via automation, AI, predictive analytics?

John David Rainey
Sure. I'd love to take credit for all of the latter, and point you to that. But the reality is, it's -- there's probably a parado (ph) here, where 80% is a result of just some of the -- getting out of the inventory mess that we and other retailers were in over the last year. So a lot of the more recent improvement is related to that. And we'll say that 20% is related to some of the AI, the improvements we've made in automation and predictive analytics.

Going forward, though, that'll be a much greater driver. And we're quite excited about that. I can't emphasize enough, the importance of being in a good inventory position in the most recent quarter, and the result that has on our business. Just the flow of inventory through our stores is so much more efficient when you don't have trailers behind the store and back rooms are full. And we saw the magic of that in the most recent quarter.

And we find ourselves in a really good place, a we're sitting here going into this new fiscal year. We talked about inventory levels down 4.5% in the U.S., 8% at Sam's, even international is flat, when you adjust for currency. So we like our position. But this didn't just happen to us. What you have to remember is, this company -- they're actually very good at this. This -- they've got a history of being great operators. And you see the effect of that in the most recent quarter.

Steve Shemesh

We have a little over five minutes left right. Last two topics I wanted to cover are CapEx and capital allocation. Your CapEx guidance for fiscal year '25 is 3% to 3.5% of net sales, which is a bit higher than it's been, historically. It's given investments in technology and innovation to optimize your supply chain. Curious if there's any thoughts or line of sight into this coming backdown, perhaps, more towards historical levels.

John David Rainey
Well, we've got line of sight into a number of investments, mostly around supply chain automation, that are yielding IRRs that are in the high teens to low 20s. And the way that we approach capital allocation, and capital investment being an aspect of that, is every dollar of capital has to compete for the best alternative that's out there. We're fortunate to be a company that is six decades old and $600 billion plus in revenue and have the type of organic investment opportunities that yield returns at this level.

And so, I really want to be front-footed here. I don't want to shy away from this. These are things that are actually contributing to the level of ROI that you're seeing in our results, the level of improvement in operating income. And so, we've got a couple years here of more elevated CapEx, where we've got line of sight into that spend. I talk about -- I talked about where we on this journey with our FCs -- we're early on in to the automation of that.

We will get to a point, thought, where that's fully deployed. And we don't -- there's not a need to continue to invest at that level. At that point in time, there might be something else. We'll see if that has that kind of return. But as it relates to capital allocation, more broadly, we're fortunate to be able to generate the type of cash flow. We had $36 billion of operating cash flow in the last year. That allows us to be very balance in our capital allocation.

And so we were pleased to announced the 9% dividend increase. But we'll still be buying back stock in the market and, from time to time, we'll do some smaller, tuck-in type acquisitions, like what we've done with Vizio, that we think are very complimentary to our organic strategy. To be clear, though, as we sit here today, we don't think there are any gaps or there's any white space in our strategy, where we need to go acquire some big capability or a larger company to achieve what we want in the long-range plan.

Vizio is a good example of the type of things that are current on our radar, where we think they can complement what we're doing, organically and be accelerants to the strategy that we have.

Stephanie Wissink
Steven, you might be on mute. We can't hear you.

Steve Shemesh
Sorry about that. Last question for me here is, John David, you've been in the CFO seat for a little while now. You've spoken to a ton of investors. The story has changed quite a bit since you've entered the arena. What do you feel is currently most under-appreciated by investors?

John Daivd Rainey
Well, maybe I'll frame this a little bit differently than what you asked, Steve. I think the concern that maybe investors have -- and I think there's belief now in our ability to do what we've talked about. I think the concern is, will we re-invest all of this and not see the margin inflection that we've talked about? And the point that I would want to make is, it's really not an either/or.

The margin profile, the changing dynamics of our margin, going forward, is such that, we believe that we can invest in our associates, that we can appropriately have the right prices gaps for our business, and see the type of margin inflection that we've talked about. We're in a much better place than we were, maybe, five 10 years ago, where I think there was a need to catch up in some of these other categories.

But we're seeing us do, even with some of the more recent announcements with our associates, is we can continue to invest in our most important assets, but do so while growing our business and growing the bottom line faster than the top line.

Steve Shemesh
That's great. This has been incredibly helpful. Thank you, John David, Seth, and Steph for allowing me the extra time here. I guess, to close this out, you've shared a lot of modeling color on the call. Is there anything else on the model, the story, more broadly, that you'd like to leave investors with?

John David Rainey
Nothing on the model. I would say just, like, look. There -- we're still in times that are far -- that don't have a lot of certainty to them. Like, the -- it's -- we're all sort of waiting to have a normal year. And we haven't had one in the last four or five years. So, there's unpredictability in our business. We think that we can manage through that.

We know that pricing levels may not come in exactly as we expect. Unit growth may be different than what we expect. There's a number of different factors in our business. But the leverage we have right now, or I should say the levers that we have in our business are very different than what they were before.

And the best example is having Seth right here and what we're doing with advertising of this new acquisition. And so, the durability of our earnings model is changing. And we're quite excited to continue to execute on this and demonstrate to all of you the type of company that we can become.

Steve Shemesh
That's great. I appreciate the time, again. And thank you to everyone for joining the call. Steph, if you have any last remarks?

Stephanie Wissink
No closing remarks from us. Thank you, Steve, for hosting today.

Operator
Thank you, everyone. This will conclude today's conference. You may disconnect your lines at this time. And thank you for your participation and have a wonderful day.