Walmart
Q2 FY '27 Buy Side Investor Call
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Presenters
Steph Wissink — Senior Vice President, Investor Relations
John David Rainey — Chief Financial Officer
Kary Brunner — Senior Director, Investor Relations

Q&A Participants
Bobby Griffin — Raymond James

Operator
Greetings. Welcome to Walmart's Second Quarter Fiscal '27 Buy Side Call. At this time, all participants are in listen-only mode. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

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

Steph Wissink
Thanks, Rob. As you're all aware, we posted our results for our second quarter. There is an earnings release and supplemental presentation that you can find on our website.

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 for that 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 hand the call over to Bobby from Raymond James.

Bobby Griffin
Thank you, Steph, and hello, everyone. I'm Bobby Griffin, the hardlines retail analyst at Raymond James. Thank you for joining us today, and thank you to Walmart for the opportunity to host this quarter's buy side call with Executive Vice President and CFO John David Rainey. John David, thank you for taking the time to speak with us today.

We have about 45 minutes and a—

John David Rainey
Thanks, Bobby.

Bobby Griffin
Number of topics—oh, sorry. Yeah, we have about 45 minutes and a number of topics to cover, so I'm going to jump right in. I'll start with several aspects from your recent 2Q print that could use some clarification based on some investor calls we've hosted, and then I'll move to some more strategic questions.

So, John David, let's maybe start with the consumer trends and the quarterly progression. There were clearly a number of moving pieces in the quarter. Can you start by walking us through what you're seeing from the consumer environment and how the underlying trends changed through the second quarter relative to the first?

John David Rainey
Sure, Bobby. First, I just want to say thanks for hosting this call, and we always appreciate everyone listening in on this. It gives us an opportunity to further explain some of the quarterly results and is probably very appropriate for this quarter. So, thank you all for that.

On the consumer trends, as we indicated yesterday, it felt pretty consistent to the prior quarter. If you go back to the beginning of the year, February for us when we gave the initial guidance, certainly there has been some incremental pressure from higher fuel prices. Fuel did move higher in the last quarter relative to May when we last talked to the investor group after earnings. And so, I think we did see that incremental pressure on the consumer and how shopping patterns were affected.

But overall, it certainly feels pretty consistent. I mean, we're not in any way sort of calling or being alarmist in any way about the consumer. They're holding up. They're resilient. They're still spending. And we see some variations in trends between income groups, but nothing that is that different than what we saw in the first quarter.

From trends from our business, I think probably was also pretty consistent quarter to quarter. Maybe the one area I'd call out that was different was around fashion, and we talked about that, certainly general merchandise maybe more broadly in the first quarter. We acknowledged on the call that we were likely seeing some uplift or benefit from stimulus from tariff refunds. And as those abated into the second quarter, maybe you probably saw a little bit of that in our results. But we feel good. Going SBU by SBU, everything was really quite consistent quarter to quarter, with the one exception that I just called out.

Steph Wissink
Bobby, it's Steph. I would maybe just add, we called this out in our slide presentation, but in the general merchandise category within Walmart U.S., we had about a 270 basis point change in price in the underlying comp. So, less price than the first quarter, so just take that into account too when you look at the mid single-digit to low single-digit. Nearly 3 points of that change was just the lack of underlying price on a relative basis.

John David Rainey
Yeah. It's probably also worth noting, Bobby, that if you were to look at the first quarter comp, and whether you look at it in total or adjusting for the health and wellness business which we shared yesterday, it had an easier comp relative to the last year—or the year before that. So, on a two year basis, it's actually a lot more consistent. And you can see that in our results.

Bobby Griffin
Yeah, that's very helpful. And that's actually a great segue into the next question. I mean, a question we're getting a lot relates to that sequential slowdown in the underlying U.S. comp ex health and wellness. So, can you maybe just expand a little bit upon the puts and takes in FQ2 versus FQ1 from an underlying sales perspective within that comp?

John David Rainey
Yeah. Well, it actually, I think, is very consistent when you look on an ex health and wellness basis and actually in the same range that it's been for at least the last 10 quarters, going kind of back and forth between that 3% to 4% range. And so, as we indicated, like, we still feel really good about our business.

There's been no change, certainly not any kind of abrupt change, that we've seen that makes us feel differently about the back half of the year or any year going forward. Really, like, all the fundamental growth drivers of our business as well as the profit components of that are still very much intact.

The third quarter is probably going to look very similar to the second quarter, particularly when you adjust for the movement of Big Billion Days from our Flipkart business. If you take that 100 basis point swing from 3Q to 4Q, it's actually very much in line with what we saw in 2Q. So, I hope everyone understands that we expect consistency there.

Kary Brunner
The thing I might point out in addition to that is that our share gains have been really strong. That's really broad-based across categories. In grocery, general merchandise, and health and wellness, all three key categories are really contributing to the share gains. And they haven't slowed regardless of the comp variations.

John David Rainey
Yeah, that's a very good point, Kary.

Bobby Griffin
That's helpful. I want to maybe click into the back half a little bit more. I mean, the guidance does seem to appear to imply somewhat of a stronger underlying sales growth in the back half relative to, I guess, your original plan. Is that, A, a primary function of what you've already seen in the business, continued market share gains? Are you assuming some improvement in the underlying consumer momentum? And then maybe to dovetail off of that, what are you seeing around back-to-school trends so far early on here?

John David Rainey
I wouldn't characterize it as we're expecting some inflection or improvement from what we're seeing right now. It's a little bit more of, I think, a consistent outlook. What we do expect is, within our international business, that to perform a little bit better in the second half. And some of that's comp related. Some of it can be more initiative driven.

Sam's, on the margin too, is probably a little bit better in the second half than what we experienced in the first. We're seeing some really good progress there with some of the price improvements and broader assortment that we have there. So, I think the second half generally feels very much in line with kind of what we're seeing in the first half right now.

There was another part of your question, Bobby. Would you repeat that?

Kary Brunner
Back-to-school.

John David Rainey
Oh, back-to-school, yeah.

Bobby Griffin
Yeah.

John David Rainey
Back-to-school, I talked about this a little bit on media yesterday. With much of the country having back-to-school a week later, with Labor Day coming the second week of September, it's probably a little bit early to draw big conclusions on back-to-school. What we can tell you more about is back-to-college, which happens a little bit earlier.

And back-to-college went really well for us. And to be clear, that's reflected in our guidance. It's not anything different than what we said yesterday. But back-to-college is always a good indicator of what back-to-school will look like in this particular situation, where there's a little bit of difference in timing.

And so, we're pretty bullish about back-to-college. And we love the assortment we have, the offerings and the price points that we have. We talked a little bit about those on the call

yesterday. But we're playing offense here. Like, we—this is our time to shine, and so we're looking forward to this. And certainly, I think we're probably a pretty good indicator of the health of the consumer from that perspective, as we sell about half of the nation's school supplies. So, we've got a really strong market share there right now, and so we're pretty optimistic about it.

Steph Wissink
Bobby, it's Steph. I would just build on that. In terms of the price investments we're making, the merchants have been incredibly strategic about where they're placing these dollars. And as you saw publicly in the media, we had a very strong July 4th seasonal event. The next wave of price investment came into the back-to-college, back-to-school assortment. And that's going to continue.

We're going to use the dollars that are coming to us to invest in strategic categories that not only drive category performance but also drive share performance more broadly. So, key seasonal moments have been a really strong area of outperformance for us over time. If you look over the last three years, the teams have really leaned into seasonal events. And that's been where our market share gains have accelerated.

Bobby Griffin
Thank you. Maybe let's switch gears, talk a little bit about the Maximum Fair Pricing aspect, as that was another kind of call out, or moving part, in the quarter. First, how should investors think about this headwind in the back half of this fiscal year, and then also equally important, kind of into next year? How should that headwind progress, given that there is another subset of drugs that will be impacted next year?

John David Rainey
We shared yesterday that our expectation for the full year is 125 basis points of headwind, so just as we had in the most recent quarter. And just to back up for a second, going into the year, we expected it to be about 100 basis points. So, it's been a little worse than what we expected. Some of that's driven by the brand to generic conversions that are happening a little bit earlier in anticipation of what's going to happen next year. But I think 125 basis points is our best bet at this point in time.

There is a second wave of drugs next year. It will likely not have the same magnitude of impact as this year, as there's a Pareto to the Maximum Fair Pricing where some of the highest priced and largest volume drugs occurred this year. So, while it may be a similar or even larger number of drugs next year, the overall volume impact or dollar impact to our business we expect to be less than what it is this year.

But, again, like, that affects the U.S. comp. I think it's worth stepping back here for a second. When we had our Investor Day I guess almost four years ago now, we outlined on average 4% growth. We said some years would be higher, some years would be lower. That wasn't a U.S.

comp number. That was a global enterprise number. In the most recent quarter, we did 5.1% constant currency growth.

We feel really good about our business. Our business consists of more than just the U.S. business. We have what is roughly a $100 billion Sam's business and roughly a $100 billion international business. All those work together. And so, we feel really good about that, but that's not to say that the U.S. business is not performing. The U.S. business is performing very well and very consistently.

As we noted, if you normalize for—not even really just the health and wellness business—just 10 drugs, 10 drugs that we actually drive a lot of volume through, as we noted, like, that's not something that we want to walk away from. The pharmacy business is a really important part of our business. If you think of the nature of that business, it by definition has recurring revenue, recurring engagement with it because people are coming back to fill their prescriptions. We know that, of our pharmacy customers, 60% of those baskets are mixed baskets.

So, this all works together in the system. And again, it's something that I think is arguably somewhat transitory here for a period of time. But it would be a mistake, it'd be a mistake to conflate some of these near-term headwinds with a change in the strength of our business overall.

Steph Wissink
Bobby, it's Steph. Just from a mathematics perspective, as we roll into next year, you shouldn't anticipate there's a stacking effect of Maximum Fair Price. The drugs that were repriced this year will be in the base. And so, we've had positive script growth, actually mid single-digit script growth in our pharmacy business. So, you could argue that this year's drugs as part of MFP could comp positive next year. It's the next wave of drugs that will be the new incremental headwind. So, it's not a stacked headwind. It's just a rolling effect of rebasing in the pricing of these drugs to this year.

John David Rainey
Yeah. And as a reminder, like, we don't make a lot of money on branded drugs. In the pharmacy business, we make money on generics. And so, that also has an impact on gross profit. Some people have asked questions like why did gross profit inflect so much higher when you adjust for tariffs? Well, this is part of it, because the profit didn't change for these MFP drugs. It's just the top line impact.

Bobby Griffin
Very good. That's helpful, and appreciate the detail from both you guys. Maybe let's move over to another near-term topic that's received some questions as well, tariff refunds. So, maybe just to start for everybody on the call, can you unpack the impact of the tariff refunds in the second quarter, what you're assuming in the back half, and then talk a little bit about the benefit that

came, the 750 basis points to constant currency, operating income? Is that net after pricing, and does that benefit reverse really in 3Q?

John David Rainey
It is net after pricing. And the way that those refunds came in, it wasn't like we got them all at once. They came in in various tranches through the quarter, some later than others. And so, we actually were a little hesitant to be too aggressive on prices until we had a better idea of what the total would be for the quarter. When we got line of sight to that, that's really when we launched some of the pricing initiatives.

But those came at the tail end and, in some cases, very late in the second quarter. So, the full impact of that from a price perspective was really incurred more in Q3, which is why I think, for this particular time period, the right way to think about our business, at least from an operating income perspective, is Q2 and Q3 combined, which would be roughly 10% growth.

Pricing benefits tend to take time. When we lower prices on something, very much we're looking to gain share in those categories. We tend to implement those through rollbacks. And rollbacks, as you know, tend to be about a 90-day period. And with any pricing that we do, there's always some that's very effective, some that is ineffective, and some that you can just say sort of as neutral. I would expect it to be that way this time, as well. And so if we see that we're gaining share, gaining units, this is P&L positive, we will likely extend some of those rollbacks where we've implemented prices. Where it's not being effective and we're not driving the type of unit growth that we want and share gains that we want, we will pull those back and those will revert to price levels before.

So I think we're very fortunate to have the opportunity to invest in this and play offense in a period where the consumer, if you look on a multi-year basis, they're certainly still facing higher prices.

Steph Wissink
I mean, I would just build on that. Price investment includes multiple price execution actions. One of those is what you see, rollbacks in the market, 11,000 rollbacks at this point in stores and on our site. That was 7,400 last year. So you can see the lift up of the incremental value and price investment. But it also includes areas where we're seeing cost increases that we're not passing through to the customer, where we're offsetting that by holding prices lower for the customer.

Third area I would call out is strategic areas where we are investing in disruptive pricing. And I would use the VIZIO onn-brand TV assortment as an area where, if you pop on our site today, you're going to see TVs for prices that are remarkable and the price gap to the market is quite extreme. As you know, those businesses have long-tail annuity streams of advertising for us. So these dollars also go into strategic areas where we see our business changing and where there's a merchandise category that's unlocking a longer stream of value for the business over time.

Bobby Griffin
And then to build off of that a little bit, John David, it seems like the third quarter is going to have more of a meaningful impact from those price investments. Will you maintain those investments throughout 3Q and 4Q? And then to follow up, as August -- I know it's still early, but as August starts to show some of the comp growth or maybe a unit acceleration in those categories that have received the tariff-related price investments?

John David Rainey
It's too early to call that right now in terms of what we will do in terms of maintaining that overall level of price investment. We've got to wait and see what the response is. We early on can see that there are some categories where we're driving share gains, driving more units sold. It's P&L positive. Others have not been effective. And again, there's a category that's neutral. But, Bobby, I'd really say it's too early. But, look, this is not different than what we do in a normal year like where we're always investing in price. We have a ton of experience with this. The merchant team knows what they're doing here. They've got a lot of experience in driving volume through lower prices, and everyday low price is what we stand for. So this is something that I think our team is very equipped to deal with in a way that is responsible from a P&L perspective.

Bobby Griffin
It's actually right where my next question was going. I mean, those on this call that have covered Walmart for a while know this, but you guys start every year with a level of price investment baked into your annual plan. So how do investors kind of distinguish this pricing activity associated with tariff refunds from the normal cadence of rollbacks and price investments that you would have undertaken anyway?

John David Rainey
Yeah, there is—we've got tariffs that were being paid last year. We absorbed some of those; some of those resulted in higher prices. You've got the exact reverse of that this year where we've got refunds. Some of that is offsetting other cost pressures in the P&L; some of it's being invested in lower prices.

I mean, at this point in the year, the best way that I could probably characterize it right now is all of this should kind of net out. It's tough to say that this is going to be a pristine or clean year. When it's all said and done, there may be some puts and takes, but that's kind of how we're feeling about it right now.

The one caveat to that is fuel. As we noted on the call yesterday, we expect to incur over $2 billion of incremental fuel costs this year. It's hard to remove that from what's going on with tariff refunds and price investment and all that. If we get to a more normalized fuel price next year, that's—everything else being equal, you'd suggest that it could be as much as $2 billion of benefit for us. So it's hard to remove or separate what's going on in pricing and investment there with what's happening in fuel prices.

And the concern, I think, for all retailers and for that matter, consumers is, at some level, when—the persistence of these higher prices, it gets absorbed in the higher prices in retail. Like you can't just sit here and pull—just find additional levers that you don't have to try to offset this fuel price increase. We see that in our business. Of the $2 billion of incremental fuel costs, some portion of that is what we're directly incurring, but some of it is what is indirectly being passed on to us with like third party logistics and things like that. So it's hard to separate what's happening on the fuel side there with what's happening in prices.

Bobby Griffin
Okay, that's helpful. And then one last quick one on just the tariff side of things, and then we'll talk actually on the cost environment a little bit before going into strategic questions. Just with all the moving parts, should investors consider the FY '27 earnings base as clean, understanding there will be some obviously movements around the quarter if 100% of those tariff refunds are invested back in the business? And is that the right base for earnings to kind of grow on to look at the algo?

John David Rainey
Yeah, based on what we know right now, yeah, I think so.

Bobby Griffin
Very good. All right. Maybe let's hit quickly on the cost side, and then we'll go strategic. But you brought it up. You're now seeing $2 billion worth of fuel headwinds. So can you maybe just talk a little bit about the other aspects of the cost environment, what's changed since 1Q, what's actually more embedded in the guide today, because it would kind of imply your underlying operating guide is very strong taking on more of those headwinds?

John David Rainey
Yeah. Well, let me spend just a moment on fuel because this is an area where I think we have a strong competitive advantage. We have 16,000 drivers in our business. Our fleet, and this data I believe is public, is 25% more efficient than industry average here. So it helps us with EDLC, just very simply. And so it's a headwind for us, but it's also an advantage as prices get higher relative to others.

I also want to point out that, in any quarter like the one we just had, there are areas of the business where you can elect to maybe pull forward some investment, be a little bit more aggressive in certain areas. And I think I characterized Q2 in that fashion, given that we did have a number of tariff refunds. It was a good quarter to do that.

So that said, the overall cost level in Q2 is probably not really representative of what you expect on a normal quarter. The pressures in our business—we talked about depreciation a little bit. I think that's well understood with some of the supply chain investments that we're making that are driving improvements and wage leverage and things like that. But the other pressure is really more around self-insurance. And by self-insurance, I'm including group health as well as claims,

which include like customer injuries, on the job injuries, things like that. Of the year-over-year increase in those two categories, two-thirds came from group health. And we pointed out that this is largely a result of just a much lower attrition level in our business.

So if you think about like will that persist into the future, I think there's some theoretical limit to how much we can improve in attrition. So I think we've probably got a pretty good handle on the overall enrollment level for group health going forward. So there's a little bit of upward pressure there this year—or next year rather, but I don't expect this to be like an ongoing inflationary area of our business to the same extent it was in the second quarter.

Bobby Griffin
Very good. And then is taking that, your comments there, is it the right way to kind of think about OpEx growth then maybe the first quarter in context and maybe the first quarter instead of the second quarter as we think about the back half of the year?

John David Rainey
Yeah, I think that's probably a better example for the back half of the year than the second quarter for all the reasons I mentioned.

Bobby Griffin
Very good. We've got about 20 minutes left, so now let's maybe switch over to some longer term or strategic strategy type questions. I guess to kick it off with, let's talk about e-commerce. US and global e-commerce continues to show really solid momentum. So can you talk a little bit about the drivers there of the strength, and equally important, the sustainability of this growth?

John David Rainey
Yeah, well, what we've seen is a very clear correlation between the improvement in our capabilities in e-commerce—and what I'm referring to there as an example would be the improvement in speed, the ability to deliver so many of our units same day or in 30 minutes. We've seen a correlation between that and our e-commerce growth. We know that speed and convenience matter to our customers and members.

And so I've lost count of the number of quarters now that we've had in excess of 20% growth in our e-commerce business. I think that's probably the run rate that we should expect. We have so much opportunity here. And when I make that statement, I'm actually just saying, in the US business, when you think more broadly about international and Sam's, I think the opportunity is even greater. So we know that we still have a long ways to go. Like we talked yesterday, only 50% of our e-commerce volume is served by automation today. So we know that, the more automated we can be, the more efficient, the speedier we can get to customers. We're continuing to make improvements with store fulfilled, as well. So I'm encouraged by that just in terms of delivering a package via e-commerce versus someone buying it in store. But then you've got all these other commerce solutions like advertising, marketplace, fulfillment services that continue to improve.

We talked a little bit yesterday about marketplace having 50% growth for the second quarter in a row. Advertising—I mean, we've had two—the last two quarters have been two of our best quarters that I can remember with roughly 40% growth in each of them. And I don't think that's slowing down. I just—we continue to expand our capabilities there. And so I feel really good about our e-commerce business going forward.

Bobby Griffin
I think it's a great segue. You brought up advertising, another great quarter, plus 40% organic growth for Walmart Connect, clearly becoming a bigger part of the enterprise. You guys recently just completed this acquisition of Vibe, adding some new capabilities. So can you spend some time and talk about what Vibe brings to the platform. More broadly how it changes or accelerates the ad business over the next few years? And then maybe as a last part of that, do the additions of VIZIO or Vibe really change the overall margin profile of the ad business? And I apologize for the multi-part one there, but—

John David Rainey
—I'll try to hit all that, Bobby. Maybe I'll start with the end. I would not say that it changes the margin profile. What it does is expand the TAM for us in advertising. So by—VIZIO, as an example, gives us an opportunity to do non-endemic advertising. Historically, like we've advertised mostly like first party and goods that we sell. But with an operating system, we sell a TV, we can advertise for things that we don't sell. You can imagine like the Ford F-150 or something like that that is a national brand.

But Vibe very importantly allows us to address a market that we were virtually untapped in, and that's the small and medium business segment. And so Vibe provides capabilities to these SMBs where maybe they don't have a dedicated advertising team or sales force to actually go in and do their own advertisements in a streaming channel. And so think of the HVAC repair in your local community or the car dealership in your local community, for that matter, the ability to provide advertisements and what is like a TV setting, a streaming setting to that local community. And so that's something that we're super excited about. That team has got—like the technology stack there is really strong; it's a great team. And so I think this is an opportunity for us to just further grow the TAM in this business.

Steph Wissink
Bobby, I'd only build with one thing, and I think as you heard John David go through it, we're expanding the different tools that exist within our ad business. It's not one type of ad form that's driving all of the growth. It's the diversification of the toolkit across different types of advertising, different utilities, different types of businesses or advertisers. And so we're trying to build a strong, fast growing, diversified business within the ad model, just as we do in our other businesses. But I think you're starting to see us plugging together some different capabilities that give us the best chance to sustain the growth and to do it in a way that's diversified and durable.

John David Rainey
And the VIZIO operating system is the number one selling platform in the country this year. It's only going to get bigger. We are the largest seller of TVs in the world by a large margin. And as you know, Bobby, like there's not a lot of margin in selling a TV unit. And I should say the recurring profit stream comes through streaming. And so that's a lot more exciting to us, and we see that only growing.

Bobby Griffin
Very good. I mean, the growth of ad, as well as some of the other kind of businesses like membership and marketplace is improving incremental margins here of the business. And you talked on it, on the call, John David, you sounded bullish and constructive on the subject, about the opportunity for those to even improve further. So can you help us understand where we are in that journey, how much the runway is coming from just improving the core e-commerce business versus growing these higher-margin services faster than the core retail?

John David Rainey
I'd be happy to, Bobby. In the most recent quarter, 45% of our operating income growth came from advertising, membership, and marketplace. So really encouraged about that because the margin on those combined is obviously much more accretive than our overall margin. What I think is kind of lost though with some is, some people think of that as a discrete business versus our in-store business or the rest of retail. We need those to work together. One doesn't work without the other.

A large portion of our e-commerce orders are fulfilled from stores. And if you think about an e-commerce order that's happening online, or you might be looking at our marketplace items too, well, you're getting advertised. You're getting eyeballs there that allow you to drive advertising dollars, but we're not going to drive that traffic unless we can deliver from stores. So all of these things in the system work together. I think sometimes the term flywheel is a little bit overused by companies, but it truly is a flywheel in our business. And so we're excited about the progress and the profit contribution to these parts of our business because they are higher than you know what we've seen historically when you're just selling bananas or tennis shoes, but one does not work without the other.

The other thing I'll say is, I still think we're learning to really—or still understanding the full potential of how to use stores in our network. And that's intentionally a little bit of a teaser, but we've got some ideas around what we can do with stores that are very accretive to ROI, have high internal rates of return. And so I think like we're still like on a learning curve here. We are a long ways from figuring out how to sweat our assets to the maximum extent.

Bobby Griffin
Very good. So we got about 13 or so minutes left for questions, so just want to keep us all on time, but maybe let's switch gears and hit on the international business. International had another quarter of good revenue growth and operating income growth, but there are some puts

and takes across the market. So can you, can you talk a little about the key drivers of that performance, the sustainability, and maybe some of the opportunities for improvement in markets like Walmex?

John David Rainey
Yeah, the two markets that I would call out that are the strongest performing parts of our portfolio right now are China and India. We just continue to be exceedingly pleased with what we're doing there. We don't talk a lot about China, but the progress in China over the last couple years has really been more skewed towards our Sam's format. And in fact, the Walmart format there has really been a little bit lackluster over the last couple years. Our leadership there has completely pivoted back to where that is actually one of the strongest performing parts of our portfolio there right now.

So I'm just really excited about that business, and as most of you know, that business in China for us is roughly 50/50 between in-store and online, so we learn a lot from that business. India, you know, we've got Flipkart and PhonePe, two incredible assets, both in their own right, where they have the vast majority of market share in each of their businesses. You asked about Walmex. I think that's probably fair to say that's the biggest opportunity for improvement we have, definitely within the international portfolio, but maybe even just broadly as an enterprise.

We have really focused over the last several years on our in-store proposition and formats there. We have a lot of opportunity online. We're expanding our marketplace that we have in the U.S. to Mexico as well as Canada, and it's very early on, on that, but the early returns are quite exciting. But I would keep your eyes on that, on Walmex and Mexico and Central America broadly. I think that's probably one of the biggest opportunities we have over the next, call it three to five years, as we automate a lot of that supply chain as we build out our e-commerce opportunities to complement what we have from a store format perspective.

Bobby Griffin
Let's hit Sam's Club as well. High single-digit transaction growth in the quarter, so kind of just similar question, unpack some of the drivers taking place there with that good strength, including maybe the expanded fulfillment options and delivery options that have been added.

John David Rainey
Yeah, Sam's had a good quarter. Transactions were up 7%. Units were up about 2.5%. Some of the categories that I think really shined in the quarter, probably like meat, seafood; fresh and produce were really good. We really like our assortment there. It's making a lot of good progress. We actually, and as I mentioned in an earlier answer, we expect that to improve in the second half a little bit relative to the first half. So really pleased with that business.

Kary Brunner
Yeah, I mean e-commerce in particular has really inflected, as delivery from Club, I think, was up triple digits in the quarter. So these new offerings that combine value with convenience are really resonating with members and driving new member growth.

Bobby Griffin
Related to Sam's, the tariff refund side of things, Sam's called out a benefit as well. So any help for us on the investment side to kind of think about the split between Walmart U.S. and Sam's?

John David Rainey
Yeah, probably the right way to think about that, it's kind of an 80/20, 80% to the U.S., 20% to Sam's.

Bobby Griffin
OK. And then I think you guys mentioned Sam's number of items receiving some type of price investment, I think increased 20% sequentially. So, can you talk a little bit about obviously with that transaction growth, it looks like you're seeing the unit response, but just anything more about where you're seeing the strongest kind of unit response from those price investments?

Steph Wissink
Yeah, Bobby, it's Steph. Maybe I'll jump in. I think John David called out a few of the areas where we made some strategic price investments, but we added about 200 incremental items to the baseline price investment that the team had planned, and so the step function in Q2 was notable. But areas of meats or proteins, seafood, there's some areas of pantry where there's a ton of innovation going on right now. Electronics has been another area where you're seeing a pretty strong double-digit comp.

John David Rainey
Fresh and produce was really good. Yeah.

Steph Wissink
Yeah, produce. So yeah, I would say broadly across the box, but generally speaking, it's really about membership acquisition, in particular that young cohort. So you're going to see strategic areas of price investment that go after the Gen Z, Millennial household formation areas that we think are important to driving membership value accretion.

Bobby Griffin
Very good. John David, maybe let's touch quickly here in the last five, seven minutes or so on capital allocation and ROI. You guys maybe you can unpack the capital priorities. You called out a little bit of an increase in CapEx to 4% of sales. How did that impact the long-term CapEx guide as well as just the free cash flow generation of the business?

John David Rainey
I'd be happy to, Bobby. The increase of 4% as a percent of sales, that doesn't mean that we're updating our long-term CapEx at this point. We still expect free cash flow to outpace earnings, just as we shared at our last investor day. I think we're very fortunate that we have the types of opportunities to invest organically in ourselves and drive high-return projects, and that's really what you're seeing this year with increasing CapEx. As we noted, we don't expect that increasing CapEx to change our outlook on ROI, or, in fact, we increased our operating income guidance for the year.

You've heard the familiar refrain from me that every dollar of capital has to compete for the options that are out there for the highest and best return. That's the way that we view all of our capital, and I think we're fortunate that we've been able to be very balanced and expect to be so going forward, both with dividends and share buybacks, as well as making some of these tack-on acquisitions like the Vibe acquisition. But we just have some really good options here and opportunities to invest in projects through CapEx that are driving high returns for us.

And as you know, the very nature of some of these capital projects, they don't necessarily drive a return in the immediate period. Some of these are long-lead-time projects that may be a year or two out before you're actually seeing that return. But that's the lens by which we look at this. We're trying to do two things, drive growth in our business and drive improved profitability relative to that growth. We've done exactly what we said at our investor day four years ago.

If you go back and compare what we said, we've exceeded all of that, and that's our expectation going forward as well, and hopefully next year, we'll have another investor day and provide a refreshed outlook that will be equally as encouraging. But I just think we have a ton of opportunities to drive these kinds of returns in our business. And I don't want to personally get too concerned about a shift from 3.5% of sales to 4% of sales, when we're driving the kind of returns that we see in our business.

Bobby Griffin
And then maybe here to close, obviously there's a lot of moving parts here in the second quarter, I guess, what message do you want to leave investors regarding Walmart's omnichannel strategy business model? Has anything structurally changed? What are you most excited about as you enter the back half? I'll just kind of leave this opening to you, John David, to close. And I appreciate the time as well for this call again.

John David Rainey
Yeah, I'm glad to have the opportunity to address that, particularly in light of some of the feedback and maybe even noise over the last day around the U.S. comp, and I would go back to something that you characterized in your question, being an omnichannel retailer. We talked about being people-led, tech-powered, omnichannel retailer. That is very much who we are. There has been zero change in our confidence in the business, zero change in the strategy. I feel like we, in some ways, are kind of moving from strength to strength.

We're not immune to everything that goes on, like things like maximum fair pricing that is impacting our business, which is 10 drugs. But all of the things that have supported the thesis around the improvement at Walmart are still very much intact. And I say this, and maybe it sounds predictable, but it couldn't be more genuine. When I look out over the next 12 to 36 months, I'm more excited today than at any point in time I've been since I've been at Walmart. We've got some great things that we're doing here, and really seeing the effects of some of the changes that we're making.

And so I'm encouraged about the future. I think that our business is getting stronger as we continue to develop this e-commerce part of our business to really turn us into an omnichannel retailer. And so you'll see more about that. And what we need to do is just deliver results over the next several quarters, and hopefully the things that we all care about will just take care of themselves after that.

Bobby Griffin
Very good. Well, I appreciate it. Thank you, everybody on, for your time. And Steph, with that, I'll turn it back over to you.

Steph Wissink
Yeah, I would just echo John David's remarks. Thank you, everybody. Your feedback is always welcomed, and we know we have calls lined up with a number of you on the line today, so thank you again for your interest in Walmart. Have a great weekend.

Unknown
Take care.

Operator
Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference.