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Walmart, Inc. (WMT)

Q2 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Walmart's Second Quarter Fiscal 2027 Earnings Call. At this time, all participants are in a listen-only mode. [Operator Instructions] I'll now turn the conference over to Steph Wissink, Senior Vice President, Investor Relations.

Thank you, Steph. You may begin.

Stephanie Schiller Wissink

Senior Vice President & Head-Investor Relations, Walmart, Inc.

Welcome, everyone. Joining me today from our home office in Bentonville are CEO, John Furner; and CFO, John David Rainey. We'll begin with highlights of the previous quarter and our outlook for the year. Then we'll open the line for your questions. During the question-and-answer portion we've invited Seth Dallaire, our Chief Growth Officer, as well as segment leadership to join; Dave Guggina from Walmart U.S.; Chris Nicholas from Walmart International; and Latriece Watkins from Sam's Club U.S. So we can address as many of your questions as possible, please limit yourself to one question.

For additional detail on our results, including highlights by segment, please see our earnings release and supplemental presentation 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. Please review our press release and 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. That concludes my introduction.

John, over to you.

John R. Furner

President, Chief Executive Officer & Director, Walmart, Inc.

Good morning, and thanks for joining us. I want to start by thanking our associates around the world. Their commitment to serving customers and members every day is what drives our business, and the results we deliver this quarter reflect their hard work. This is a good quarter for Walmart, and shows once again that our strategy is proving out. We've been investing against it for years, and I'm even more bullish today as we see the pieces increasingly powering each other. A strong retail foundation alongside faster growing businesses like marketplace, advertising and membership. The math isn't simply one plus one equals two. The value comes from how these businesses work together, with each one strengthening the others and expanding what the company can do as a whole.

And as these businesses scale, they become a more meaningful part of our mix, and they're changing the shape of our business. We're accelerating growth and improving the overall economics of the company. The model is working, and we're confident in its power to drive durable, long-term growth and shareholder value. The underlying business continued to perform well in the quarter and was largely in line with our expectations, which assumed a slight moderation in sales growth from the first quarter. Overall, we continue to gain market share. We grew units in transactions, and membership fee revenue was at an all-time high on growth of 17%. We delivered

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another quarter of strong eCommerce growth, up 23% globally, including the 10th consecutive quarter of growth over 20% for Walmart U.S.

And we also expanded the reach of platform businesses like Walmart+ and Marketplace to markets outside the United States, demonstrating how we're leveraging these for growth. And as we build and scale these capabilities across markets and begin to operate globally on the platforms we've built during the last few years of transformation, we're seeing the same dynamic. These businesses work together, deepen our relationship with customers and members, and create additional opportunities for growth and stronger economics. Our core retail business had another strong quarter, with sales growth at the top end of our guidance, up 5% in constant currency. Comp sales for Walmart U.S. were 2.6% led by transactions and Sam's Club U.S. delivered comps of 4.4%. International was up 7.9%, led by China and India.

For Walmart U.S., I feel good about how the underlying business is performing. The team delivered strong sales growth in categories like toys, pantry and fresh, and we continue to see growth from higher income households. Changes in regulation around maximum fair pricing for certain drugs negatively impacted comp sales by 125 basis points. John David will share more about the makeup of the US comp, and talk through the additional color we provided in today's earnings presentation. Turning to profits, adjusted operating income grew 17.4% in constant currency. This includes the benefit from the receipt of tariff refunds in the quarter. And as we suggested on the last call, our intent was to deploy much of that back into price, and that's what we're doing.

Importantly, our underlying profit growth was where we thought it would be, excluding this benefit. Because of our strong top and bottom line growth, we're raising our guidance for the year. Now, let me take a moment to talk about specific drivers of our growth. First, everything we do starts with serving customers and members as an omnichannel retailer. Core to that is delivering value and maintaining price leadership. As we said coming out of Q1, customers tell us they're still feeling some pressure, but it's clear, customers are looking for value and convenience, and they want things fast, and that's where Walmart shines. Having the best prices across a basket of goods helps us continue to build trust with our customers and members, by helping them save money at a time when many households are carefully managing their budgets.

The Walmart U.S. team delivered more than 11,000 rollbacks during the quarter, up from 7,200 rollbacks at the end of the first quarter, demonstrating our commitment to price investment. We're investing heavily in price because customers need us to, and because we believe it drives market share gains over time. Our price caps to conventional grocers here in the US are strong, and they continue to widen. The share gains we see from this channel have persisted alongside the drug and dollar formats. A secondary I'd like to highlight is our ongoing strength in eCommerce. The sustained growth we've seen in eCommerce across the company over multiple years points to more than a digital success story. It's evidence that customers and members increasingly choose Walmart because they know we combine low prices across a broad assortment with speed and convenience.

The mix of eCommerce for Walmart International is now 30%, with strong growth again this quarter in China, India and Canada. Growth in Q2 was 19%. Sam's Club U.S. grew eCommerce 26%, with delivery from Club up triple-digits following the launch of our 1-hour delivery back in April. Walmart U.S. delivered growth of 24%. Marketplace grew 52% and advertising was up 38%. We believe a factor in this growth is our ability to deliver with speed. Customers and members around the world are getting superfast deliveries of baskets that include pharmacy, fresh, frozen, fashion and general merchandise, often in under 30 minutes. Fast delivery in the US grew 48% for the quarter. Speed matters, and we have a significant competitive advantage.

Our physical footprint, fulfillment infrastructure and local delivery capabilities allow us to move closer to customers, while maintaining an attractive cost structure. We've now expanded sub-30 minute delivery into 38

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markets here in the US, giving millions of additional customers access to faster fulfillment. And speed isn't simply a fulfillment metric, it's an acquisition strategy. Customers who use fast delivery shop with us more frequently, they deepen engagement with us, and they're more likely to become Walmart+ members. The advances we're making in speed to delivery create another reason for customers to choose Walmart for more shopping occasions. That's an important shift in how we think about growth.

And as we become faster, we're not simply taking share within traditional retail categories, we're expanding the number of occasions where Walmart can serve customers, like food delivery. In the past, customers may have thought about Walmart primarily for groceries and general merchandise. Today, we're expanding beyond that. Meal solutions, prepared food partnerships like the one we announced with Subway and faster fulfillment allow us to participate in a much broader share of everyday food spending. This is an exciting opportunity and we're just getting started. The third area I'd like to highlight is our platform strategy. We're building capabilities that are increasingly scalable across markets. Marketplace, fulfillment services, membership, advertising and other commerce solutions are strengthening our business, and they're improving the economics of the company.

This quarter, we expanded our US marketplace platform capabilities into both Mexico and Canada, and we launched Walmart+ in Canada. Membership was also a highlight, with double-digit growth for Walmart+ and strong growth for Sam's Club in the US, China and Mexico. We also gave a boost to our advertising business with the acquisition of Vibe. We believe Vibe expands our ability to help advertisers of all sizes reach customers through self-service tools, while measuring results against real shopping behavior. Combined with Walmart Connect and VIZIO, this further strengthens our platform and creates value for customers, sellers, suppliers and advertisers. These are important milestones because they demonstrate the value we're creating across the company.

Rather than building entirely new capabilities market by market, we're increasingly able to build once, improve continuously, and scale globally. That makes us faster and more efficient and allows customers in more markets to benefit from innovations developed anywhere across Walmart. The fourth area is our supply chain. We've invested in automation, technology, fulfillment capacity and our physical network, and these investments are showing up in customer experience. They're allowing us to move inventory more efficiently, deliver faster, help with in-stock levels, and support the growth of both our first party and marketplace businesses. They also strengthen the economics of our omnichannel model. And as we improve density and utilization across our network, speed and profitability reinforce one another.

And you can see how these advantages build on each other. When we invest in our supply chain, it helps us get more products to our customers and members faster. When they get items faster, they shop with us more frequently, both online and in our stores. And as frequency increases, our suppliers and sellers want to be closer to the point of purchase, it's reinforcing. Finally, let me talk about how AI is helping make Walmart faster, more convenient, and personalized. We continue to take a people-led, tech powered approach. We're using AI to make our work easier and to help our associates grow and be at their very best. We believe AI will improve nearly every part of our business by making shopping better, and our associates work easier. Sparky is a great example.

The number of customers using Sparky is up 70% from last year, and the customers and members who use Sparky for shopping spend 40% more per order than others who don't. Someone recently shared with me that they asked Sparky for a weekly meal plan of healthy foods with high protein options. Within a few seconds, Sparky shared recipes and meal kits with the ability to add all the ingredients they needed their basket with one click. Sparky even recognized the ingredients they had recently purchased, both online and store, so they didn't buy something they already had. It's building trust. When you step back, what encourages me the most is how these areas are increasingly [Technical Difficulty] (00:13:01-00:13:11).

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I'll close my comments where I began, and that's by thanking our associates. The progress we're making is possible because of the way they serve customers and members each and every day, the way they embrace new technology and the way they continue to find better ways to operate. I'm excited about the momentum we have, confident in the strategy we're executing, and even more optimistic about the opportunities ahead.

With that, I'll turn it over to John David to walk through the quarter in more detail. John David?

John David Rainey

Executive Vice President & Chief Financial Officer, Walmart, Inc.

I'll echo John's sentiments. We're pleased with the way our business is performing, especially during the more recent operating environment that's been marked by some near-term macro crosswinds. Our business model is only getting stronger and more durable, and this gives us confidence to raise our sales and operating income growth guidance for the year. With the tariff refunds, there are some idiosyncrasies to this quarter's results. So I'll provide a deeper view of the impacts and discuss how we're thinking about these factors looking into the second half of the year. First, I'll start with the financial and operational highlights. Enterprise net sales growth in constant currency of 5% was at the top end of our guidance of 4% to 5%, driven by growth in eCommerce, Sam's Club and China.

This quarter demonstrates the benefits of our diversified portfolio of businesses across channels, formats and markets. Global eCommerce net sales grew 23%, continuing the strong momentum of the last several years. Sam's U.S. and our International segment were both accretive to enterprise sales growth. Sam's comps were driven by a 7% increase in transactions with solid growth in unit volumes. International constant currency sales increased nearly 8%, led by 9.7% growth in China. Walmart U.S. net sales increased 3.5%, including a comp sales increase ex-fuel of 2.6%, slightly below our initial expectation due to lower health and wellness sales that were impacted by a larger headwind from maximum fare pricing. I'll talk more about this in a minute.

Enterprise adjusted operating income on a constant currency basis increased over 17%, and adjusted EPS increased over 19%. This performance reflects the net benefit from the tariff refunds we received, partially offset by price investments in the quarter, as well as improved incremental margins in our digital business, with strength in high margin commerce solutions. Operating income growth included a net benefit of approximately 750 basis points related to tariff refunds received in Q2. Setting aside this benefit, underlying operating income growth was at the top end of our 7% to 10% guidance. Our outlook reflects the continued prioritization of the remaining tariff refunds and the customer experience and price investments in the second half. For this reason, I encourage you to consider Q2 and Q3 performance together to assess the underlying growth of the business.

I want to take a moment to further emphasize the positive progress we're making in our eCommerce businesses. Digital is driving our growth, customer spend, and market share gains across all operating segments. As we deploy these digital capabilities outside the US, it allows us to move with speed from an operational perspective. From a financial perspective, this allows us to grow at a lower marginal cost. Walmart U.S. eCommerce grew 24% in Q2, with over 40% sales growth in store fulfilled deliveries, 20% growth in average weekly customers, and over 50% growth in marketplace sales. eCommerce growth was also strong at Sam's Club U.S., up 26% and our International segment up 19%, led by China, India and Canada. Sustained eCommerce momentum enables the growth of commerce solutions businesses, advertising, marketplace, data ventures and membership.

I'll start with global advertising, which increased 38%, driven by another strong quarter from Walmart Connect in the US and Flipkart Ads. Walmart U.S. advertising, including VIZIO, also increased 38%, led by strength in Walmart Connect, which was up 43%. The momentum in marketplace and fulfillment services continued this

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quarter, with US net sales up 52%. Nearly 50% of the marketplace business flowed through Walmart fulfillment services in Q2, an increase of nearly 400 basis points versus last year. We're benefiting from a broader marketplace assortment that includes more of the key brands that customers want. Walmart Data Ventures continues to drive meaningful growth. Users value the platform's enhanced decision intelligence capabilities, which uncovered shared growth opportunities across Walmart's formats and markets.

We announced today that we're extending the Scintilla platform to Sam's Club U.S. next year, addressing one of the top requests from our suppliers. Rounding out our profit mix drivers, membership income grew nearly 17% globally. Sam's Club U.S. membership increased nearly 6%. This was driven by steady growth in member accounts and plus penetration. Sam's Club China hit new record highs in member counts, and we saw strong relative performance in our Sam's format in Mexico. We're especially pleased with the continued strong double-digit growth in our US Walmart+ program, resulting in the best first half of membership growth in its history. We're building what we believe can be the most essential membership program for consumers, and excited for what's ahead.

The thing that people sometimes overlook when reflecting on our membership program is the incrementality that we see on GMV. Our members spend approximately four times more than non-members. Turning to incremental margins, the profitability of our eCommerce business continues to improve. Our Walmart U.S. eCommerce business achieved double-digit incremental margins for the first half of the year. This was driven by continued strong ad and membership revenue, further densification of our delivery network, growth in fee-based fast deliveries, which represented an all-time high of 37% of store fulfilled deliveries in the quarter, and lastly, the benefits of automation. 3,100 of our US stores are now served with some level of automated freight, and we're processing over 50% of our eCommerce fulfillment volume through automated facilities.

Now, I want to address a few areas in a little more detail. The first is the Walmart U.S. comp. To help understand the composition of our US comp sales by merchandise category, we provided an additional disclosure in our supplemental slide deck, which is slide 14. The chart on that slide shows Walmart U.S. comps, excluding the health and wellness category. Over the last two-and-a-half years, sales in our core categories have been extremely consistent, largely in the 3% to 4% range on a quarterly basis. For outlier periods, such as last quarter, when looking at a two-year average, growth falls right into the middle of a similar 3% to 4% range. We expect core comps in a similar range in the second half.

However, when looking at the Walmart U.S. total comps, including health and wellness, during each of FY 2025 and FY 2026 we realized 100 basis points of a tailwind from sales of GLP-1 branded drugs. In FY 2027, the benefit from GLP-1 is expected to be roughly half that amount, as script count growth is more than offset by price/mix headwinds. New in FY 2027, we cited a 100 basis points headwind to total comp sales from deflation and brand to generic transfers under the first year of maximum fair price regulation. In Q2, this negative impact was closer to 125 basis points, and we've updated our estimate for FY 2027 impact to be similar at 125 basis points.

Putting all this together, sales of core merchandise categories have been consistent, but at the total US comp level, we've had nearly a 200 basis point net swing in comp sales growth from the trailing two-year pace to this year, entirely tied to our health and wellness category. It's important to note that this unfavorable impact is to the top line only. We're pleased with the underlying performance and the profit contribution of our health and wellness business. Next, I want to discuss in-store comps. They were down low single-digits in Q2, consistent with a trend that began in late Q4 last year. This headwind is primarily driven by the negative impact from the health and wellness business, where the vast majority of the sales occur in store. The role of our stores has evolved as our model has changed.

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eCommerce sales now represent over 23% of our mix in Walmart U.S., which is double the level from just five years ago. The more omni we become, the more important our stores become, not less important, more important. Between in-store shopping and digital fulfillment, we have more unit volumes transacted through our stores than ever before, as they are the last mile fulfillment nodes for 80% of our eCommerce orders and 100% of our fast deliveries. As eCommerce profit margins continue to improve, we're becoming increasingly agnostic about channel dynamics, while enabling customers to shop on their terms.

Next, I want to discuss the tariff refunds in a little more detail. As we shared with you in May, we were eligible for approximately $2.9 billion of tariff refunds, amounting to about 0.5% of annual US net sales. To-date, we've received substantially all of these tariff refunds. As John mentioned, we've taken a disciplined approach to investing these funds back into customer experience and price leadership, prioritizing investment in grocery and general merchandise categories. Looking forward, our Q3 guidance reflects the continued impact of pricing actions taken in Q2, alongside continued prioritization of tariff refunds and the price investment. We would encourage you to look at our operating income growth for Q2 and Q3 together to assess the underlying performance of the business.

Now, I'll turn to SG&A. We leveraged wages in Q2 as we continue to improve productivity through increased usage of tech tools by associates and stores, and streamlined inventory flow enabled by supply chain automation. More than offsetting these benefits were higher depreciation related to CapEx and increased self-insurance costs. Inventory at quarter end increased 6% in constant currency, slightly higher than total enterprise sales growth. The increase reflects cost inflation as well as higher inventory to support strategic initiatives in the US, including the optimization of inventory across fulfillment notes. Turning to guidance, we have increased confidence in the long-term value drivers of our business. Our business is strong. eCommerce and related businesses offer compelling growth, and we are consistently generating strong incremental margins.

We're raising our fiscal year sales guidance to 4% to 5% from 3.5% to 4.5% previously. There are four assumptions worth highlighting. The first is this upward revision reflects the pass-through of first half performance, but also assumes slightly better second half sales versus our prior guide, as price investments drive accelerated and sustained share gains. Price investments are an immediate benefit to customers, but build value over time for the business. Second, we're incorporating a larger headwind from maximum fare pricing within the Walmart U.S. business. Based on year-to-date experience, we now estimate the full year headwind to Walmart U.S. comp sales will be closer to 125 basis points.

Next, we expect Sam's Club U.S. and International to be growth accretive to the enterprise in both Q3 and Q4. Walmart U.S. sales growth is expected to improve in Q3 as the investment and customer value translates into stronger sales. And lastly, the timing of Flipkart's Big Billion Days will impact the cadence of Q3 and Q4 sales growth. This year, we expect a Q3 headwind of over 100 basis points sales growth as we lap last year's event. We expect that Q4 sales growth will benefit by a similar amount for this year's event. Overall, for the enterprise, we expect sales growth in Q3 to be between 3% and 3.75%. Regarding operating income, we're raising our full year guidance to 7% to 8.5% versus 6% to 8% previously. We expect the financial impact from the tariff refund receipts and reinvestment will be largely contained within the current fiscal year, with the objective of driving sustained customer benefits and share gains in the second half and into future years.

Our guidance assumes that fuel costs persist at current rates. We now expect more than $2 billion of incremental fuel-related costs this year, above and beyond our original guidance assumptions. We also expect costs related to the acquisition and integration of Vibe to be an approximate 20 basis points headwind to OI growth. Inclusive of planned investment of tariff refunds, Q3 operating income growth on a constant currency basis is expected to

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grow 2% to 4%. Notably, a large portion of the refunds were invested at the end of Q2. So the full quarter impact of these investments is more pronounced in Q3. When looking at Q2 and Q3 reported operating income together, growth would average approximately 10% per quarter. We're raising our full year EPS guidance to $2.80 to $2.87 from $2.75 to $2.85 previously. For Q3, we expect EPS of $0.62 to $0.64.

I want to be really clear on this point. We're at the midpoint of our year, and we're raising our full year guidance to reflect confidence in our ability to sustain growth and share gains. Importantly, we're raising in the face of more than $2 billion of incremental cost tied to higher fuel prices in arguably a softer consumer environment than in February when we introduced our initial outlook. As such, we feel it's prudent to remain cautious by only raising the guide modestly. We now expect slightly higher CapEx for the year at approximately 4% of annual net sales. Even with this increase, we expect to generate double-digit growth in free cash flow this year. In closing, our teams continue to focus on what we do best, serving customers and members with everyday great value, exceptional convenience and speed, all while pushing our business model forward, diversifying our profit mix and leading in agentic experiences.

We're now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question is from the line of Kate McShane with Goldman Sachs. Please proceed with your question.

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Thank you for taking our question. We wanted to focus our question this morning on the tariff refunds and price investment. With your most recent incremental pricing investments, I know you mentioned you're expecting a slightly better second half as a result, but have you already started to see an acceleration in units? And just given the price investment is such a focus in the market, can you talk about vendor support versus how much Walmart is investing, and how do you sustain these lower prices [indiscernible] (00:30:43) investment in 2027?

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Hey, Kate. Thanks for the question. This is John. Let me just start by saying, I'm really pleased with the quarter for Walmart. This is a good quarter of five in sales and strong operating income growth. We've been investing, as you know, in the last few years in the strategy to drive a very powerful omni business, and we're proud of the progress. I've been a part of building this strategy for a year, and it's great to see it come together. We want to be really flexible for customers, whether they shop at the counter or at the curb or delivery to their home. Customers are looking for value and our team is executing that well. We had a good quarter in Walmart U.S., International and Sam's Club, and the result of that is, we have seen share gains and we're pleased with share gains across the business.

There was an impact in pharmacies we talked about, from MFP. Putting that aside, the second quarter for Walmart U.S. is the best second quarter we've had in the last three years. So we're proud of the performance. And as all these pieces come together, whether it's marketplace, advertising, our membership businesses, it's

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important to recognize that these businesses work together, they're reinforcing and they further develop our ability to serve customers with value. So on price specifically, as John David mentioned, we invested in price in the second quarter. We talked about at the end of the first quarter that customers are feeling some pressure. So we're proud of our investments. We're very thoughtful about those investments, the categories they went in. The timing of those investments, and we'll manage them across the two quarters.

Our merchants have a lot of experience delivering value, mixing out. They're doing this in a way that, as I said, resulted in share gains, are really pleased with the share gains that we saw in the food categories. And those type of share gains tend to be durable over time. So specifically, as we look forward, if you take the two quarters, you put those together, we're pleased with our forecast in terms of sales. We're pleased with the forecast in terms of operating income growth. You heard John David mention what those two are, and our purpose and mission is always to save people money and live better, and that's what we'll continue to focus on. And we'll do everything we can to keep prices as low as we can for customers throughout the rest of the year.

Operator: The next question comes from the line of Simeon Gutman, Morgan Stanley. Please proceed with your question.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning, everyone. So I guess, I have two parts. The first is, the lower income consumer has faced pressures for the better part of several years. Is there anything different even about this environment with gas prices that you think has accumulated to weigh on them further? And then it's related to the prior question, and I think some of John David's prepared remarks, the elasticity function to some of these price investments and rollbacks. I know you mentioned you see it immediate. Can you give us some context? And then, is there traditionally a little bit of a lag where you start to see a more, I guess, more impactful response over the next, call it, six months? Thank you.

John David Rainey
Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Simeon, this is John David. Thanks for your question. We, no doubt, and it sort of states the obvious of seeing some incremental pressure on the consumer relative to the beginning of the year with higher fuel prices. As you go through month-by-month in the last quarter, you can tell when fuel prices increase and got above $4, and perhaps there's a psychological impact to that, that there are choices that consumers are making. So June was a little more obvious as we look at the quarter in terms of customers making trade-offs. And it's why we have lean so heavily into lower prices. You're right, there is elasticity on these items that we roll out. We talked about 11,000 rollbacks. We're really proud of that, and how we're trying to be there for our customers and members during this period of time.

But I think, very importantly, in your question, there is a lag to this. There is a bit of a cumulative benefit that comes when you lower prices. And so you don't necessarily expect to have that offsetting benefit to the lower prices in the immediate period. And so as you know, being very familiar with our business, we're not managing our business for one quarter, we're managing our business on a multi-year basis to play, to win. We feel confident in our strategy and what we're doing here. And importantly, the market share gains that we've seen in these recent periods, they're durable. We're seeing that we're keeping those market share gains, and it's why I think we've been perhaps as bold as we have to continue to go after that.

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John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

And Simeon, with the rollbacks and the other investments, we exited the first quarter as we mentioned earlier, at about 7,000 rollbacks. It's normally about 5,000. At the end of the quarter, we have 11,000. And when you take rollbacks in consumable categories like food, you tend to see first a unit increase, and we saw transactions in units grow in the quarter. And then that does create a temporary deflationary effect. But as the units grow over time, particularly in food, then the share gains come through, and we were really pleased with the recent share report, and food is one of the strongest reports we've had in some time. So we're pleased with those. But again, we'll handle this thoughtfully. Our hope and intention always is that, rollbacks can become permanent price increases wherever possible. We have a line of sight to those. And for any that we see that we aren't getting a return on, we'll manage them carefully. We're going to be thoughtful about how we invest all of our funds and all the funds available. Ultimately, we're trying to reinforce the everyday low-price model and save customers money.

Operator: The next question is from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Hi, thanks. I'd love to follow up on where you're seeing tariff rates going forward. Are the effective rates under the new sections coming in at higher or lower than IEEPA? And then my follow up is on the baseline into 2027. Should we think about operating income still growing up to 2x sales as we see the traffic results from the price investment? Thanks.

John David Rainey
Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

The assumption that we have with respect to tariff rates is basically at the level that we're experiencing today. It stands true for where fuel prices are as well. So if there's some improvement in fuel prices, I think, that's a benefit to our forecast. On operating income for 2027 and the outer years, look, we have a lot of confidence in our ability to continue to grow the bottom line at a much faster rate than we have the top line. But I don't want to miss the top line growth to have what is roughly $0.750 trillion of a revenue base, and be able to grow at 4%, 5%, 6% a year, that's meaningful growth. What's notably different, though is how profitable that growth is. And so like let's step back for a second and just think about the US comp. US comp is at 2.5%.

I think, the right way to think about that is really more 3.5% when you adjust for health and wellness. But just take at face value, at 2.5% US comp, we grew operating income 10% ex-tariffs, that's 4x the level of revenue growth. We haven't done that level of profit growth relative to the US comp in two decades. Our business is fundamentally changing. And if you look at the profit drivers of our business, almost half of the growth came from areas like membership, advertising, marketplace, and we expect this to continue. In fact, I think, there's a line of sight to seeing improvement in incremental margins as we go forward. Right now, we're generating roughly double-digit, low double-digit incremental margins. But the growth drivers of our business are as intact as they ever have been.

Operator: The next question comes from the line of Brad Thomas with KeyBanc Capital Markets. Please proceed with your question.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

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Good morning. I want to ask about the health and wellness category and appreciate all the detail you shared this morning. It's really been a outsized contributor to growth over the last few years, and still seems to have a bright outlook. I was hoping you could speak to that multi-year outlook, and maybe how to think about the impact of fare pricing, particularly as we look out over a couple of years here. Thank you.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Hey, Brad. As we mentioned, there definitely has been an impact in prior years. It was a tailwind and it was a headwind in the quarter, that's on slide 14 in the supplemental materials. So when you provide the transparency we can, but we do not want it at all signal that we are unpleased with the health and wellness business. Lower prices help over the long-term. We have a legacy of lowering prices in pharmacy back to the $4 generics, which has been exciting. But I want to have Dave talk about the business overall. We're really energetic about not only the underlying performance of health and wellness, but health and wellness and its customers, pharmacy customers, they spend more. And I think, there's some really important detail that Dave is going to add.

David Guggina
President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

A

Absolutely, John. We feel very good about the underlying momentum in the health and wellness business. Prescription volumes continue to grow. We're gaining market share, and customers are responding strongly to the convenience that we're building around pharmacy. I do want to highlight health and wellness, this customer cohort is incredibly important for us. When someone becomes a health and wellness customer, they spend on average 3 times more than the average Walmart customer. And when they begin using pharmacy delivery, in addition to being a health and wellness customer, that almost doubles yet again. So we have a very unique opportunity to connect our pharmacy expertise, our digital capabilities and our local fulfillment network to make healthcare more convenient and accessible, while deepening our relationship with these customers.

Operator: Our next question is from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thank you so much for taking my question. You articulated a lot of confidence that the Walmart U.S. comp is going to accelerate as the lagged impact from these price investments start to gain traction. So A, have you already started to see that? And B, if that does not happen, what are you thinking about in terms of incremental price investments from here in order to drive the top line as you move not only into the back half, but also into 2027, especially as the benefit of all these tax refunds stay? Thank you so much.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Hey, Michael, good morning. First, Everyday Low Price is a philosophy that builds trust with customers, and we're proud to offer a value on a basket of goods that's predictable, it's consistent over time. So when we have the opportunity to lower prices, of course, that is always going to be our bias to do that. But we always need to balance our price investments relative to what we're seeing in the market, and with the commitments we made on our forecasts, including operating income over time. So we'll continue to work through those. I do think it's also important to step back and just think about the business model in total. John David mentioned the growth in things like membership, advertising, data, fulfillment services.

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We built a much more durable and resilient model that gives us optionality over time. And we're proud of our price gaps. Of course, we'll defend those. We're proud of the rollback count we have. The rollback count, as we mentioned, started really late July. July was a stronger month. In the month of June, we're pleased with the way back-to-school and back-to-college have started. So we'll monitor over time, and we have a great merchant team that will, of course, mix out categories. And we'll look at these investments carefully one at a time. Ultimately, what we want to do is like what Dave said in pharmacy, we want to have a business that you can depend on, whether you're shopping at the counter, you're shopping at the curb, you're shopping at home, and we want to provide the most flexibility we can for our customers.

Operator: Our next question is from the line of Chris Nardone with Bank of America. Please proceed with your question

Christopher Nardone
Analyst, BofA Securities, Inc.

Q

Great. Thank you, and good morning, team. Can you refresh us on the messaging around incremental margins coming out of your digital business, given the momentum we're seeing there? And then, as we think ahead to next year, how should we think about your plan to lap these rollbacks and price investments you are making today, and still make sure you're driving consistent traffic to your stores? Thank you.

John David Rainey
Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Chris, I'll take that. Let me start with the second part of your question. Lapping 19% EPS growth next year will be a challenge. So again, like we're managing our business on an annual, if not, multi-year basis, but feel really good about what's in store for the next year and the years to come. But on the incremental margins, which as I noted, kind of in my previous answer, I think that's a big part of the story for us. We continue to see these growth areas of our business that are driving more benefit to the bottom line. We've not really committed to any certain number around the incremental margins in our business. But if you look back over the last, call it, six quarters or so, generally, US eCommerce incremental margins have been in that high single-digit to low double-digit range. A couple of quarters ago, I was asked a question about the opportunity for that to improve, and over time, I think, I was maybe a little bit more guarded at that point.

But when we see things like our advertising business, that continues to grow at a 40% clip on a much higher base. That actually gives us confidence and the ability to maybe see incremental margins even go higher. And so like, what do you have to believe to have incremental margins go higher, well, advertising growth would need to outpace our eCommerce growth, and that's actually what we've been seeing, and not by a small margin, by a large margin on a larger base. And with the acquisition of Vibe, this gives us a new addressable market that we didn't have before in these small and medium-sized merchants. And so we're very excited about the opportunity there. Advertising, though, is just one aspect of what we're doing. I don't want to solely point to that as the only opportunity that we have here. As we continue to add businesses that complement the diversified portfolio of offerings that we have today that generate these higher margins, it's very attractive to us.

The key benefit of digital growth is being able to grow at a very low marginal cost. John has talked a lot since he's come on about this platform approach that we're taking. We're doing all the same things that we're doing in the US in our other markets around the world. Mexico is a really good example. We look at Mexico today, and it's the same playbook that we implemented in the US five years ago, and we're super excited about some of the early progress that we're seeing there. So we think we have a tremendous opportunity to continue to change and see our margins drift up over time. The last thing I'll say on this, obviously, I have some passion around this point, but

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it's not just that our incremental margins are growing, they're growing at twice the rate of the overall margin of the business. And I think, that shows sort of how the earnings complexion of our business and the durability of that growth that we have will play into the future. So very excited about it.

Operator: The next question is from the line of Christopher Horvers with JPMorgan. Please proceed with your question.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for taking my question. So if you look at the category performance relative to 1Q in the Walmart U.S. business, grocery continued to grow in that strong mid single-digits, well above the market, and it was gen merch that actually slowed. So could you help us think about how much of that slowdown in gen merch was stimulus-related versus gas prices affecting that lower-end consumer? And then, if you look back over the past few years, you've seen a consumer that has shown up around events, and to what extent have you seen the impact of back-to-school start to drive some lift in that gen merch business, even considering where gas prices sit today? Thanks so much.

John David Rainey
Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Chris, why don't I start and then maybe hand it over to Dave for a little more color. I think, no doubt, the first quarter benefited from the stimulus payments related to tax refunds, and we acknowledged that on the last call. It's tough to determine how much you ascribe to what's going on in your business versus the overall macro environment. But I think, we definitely benefited some from that. And then, as we went into the second quarter, we saw gas prices peak at higher prices than what we saw in the first quarter. I think, all of that impacts the results. But again, when you look at the core business and the fact that our value proposition, I think, is as strong as ever, we feel really good about how we're performing and what the outlook is.

Back-to-school, back-to-college, back-to-school for much of the country is about a week later this year, so it's probably a little early to conclude anything on that. But I will say that, back-to-college has gone exceedingly well. Like, we're really pleased with what we're seeing there. You asked about general merchandise categories. Like, we have right now, like, one of the brands that we're selling, private brand items, Wonder Nation for kids, it's the largest kids' fashion brand in the US today. So we love our offering. We certainly recognize that the share gains that we're getting, notably from higher income consumers, are in part because of the assortment that we have. And that was part of the reason that our inventory went up. The fact that we've got more elevated brands, more expensive merchandise that appeal to a broader cohort of customers is affecting our business and our results. Dave?

David Guggina
President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

A

Yeah. John David, what I would add is, we're very pleased with the team's progress in general merchandise. We are seeing strength in style, we are seeing strength in trend, we are seeing strength in fashion and toys. In fashion, I'm really excited about some of our private brands, Scoop, Free Assembly. We're seeing triple-digit comps in those areas. When it comes to back-to-college, decor outperformed across the back-to-college home business. Areas to call out would be candles, throws, rugs and lamps. Those all posted double-digit and triple-digit comps.

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And then, when it comes to back-to-school, as John David mentioned, this is where we shine. Walmart sells roughly 50% of total industry school supplies from a unit standpoint over the season, and we're very pleased with where we are at this point in the year. Customers are responding to just absolutely fantastic investments in price. We have a list of 14 key items that are priced less than what we saw in 2019. Great examples are Pen+Gear Crayons for $0.25, or our Pen+Gear #2 pencils for $0.92. And those prices are resonating with customers, and we're seeing it in traffic, ticket, and unit volume all growing.

Operator: Our next question is from the line of Krisztina Katai with Deutsche Bank. Please proceed with your question.

Krisztina Katai
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, and thank you for taking the question. So I also wanted to focus on the price investments from a return perspective. You noted 50% sequential increase in rollbacks, I believe 11,000 items, which might be a new record for Walmart. So I wanted to ask if you could speak to the performance of the incremental rollbacks, the metrics and the payback period that determine whether an investment becomes permanent, and maybe just frame up for us if you can, just how much of the current rollback portfolio is meeting those return thresholds? Thank you.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. Krisztina, throughout the year we have stated that our intention would be to invest in price where possible, and any refunds that we had, we would prioritize price investments, and that's what we did in the quarter. Categories like, as an example, like the meat department, prices have been higher and we know that customers have needed relief, so we invested in ground beef and other areas that were really important to the customer. And we'll watch those over the course of the time. A rollback has a start date, it has an end date. We'll watch the unit movement, we'll understand the effect on the category. Importantly, the result is, we're seeing share gains, and share gains are ultimately the way we would judge how we're doing relative to the other businesses that are out in the market.

In terms of the quantity, I don't know if it is the highest ever, but it is a high number. It's the highest I can remember, at least in recent times. And it is a reflection of the work that the merchants have done, it's a reflection of where we are in the market, and it's a reflection of the funds that we had available to be able to invest in price. The timing of those were late in July, and they will continue into the second quarter. And that's why John David mentioned earlier, you should think of the second and third quarter together in terms of both sales and operating growth, and we'll measure it appropriately. We're not investing just for the sake of doing it. We're doing this because we think it has a lasting, durable impact on the way customers perceive us. And what we're trying to do ultimately with Everyday Low Price and rollbacks is to drive trust. It's probably a bit too early to call how many of these will be permanent. We'll manage that and we'll work with our suppliers to determine whether that's possible.

Operator: Our next question is from the line of Bob Drbul with BTIG. Please proceed with your question.

Robert Scott Drbul
Analyst, BTIG LLC

Q

Hi. Good morning. Just a couple of questions around, I think, inventory. Are there pockets of concern on your inventory levels at all? You mentioned inflation impacting the inventory. Can you just also address, like, your inflationary expectations for the remainder of the year throughout the business?

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John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Bob, generally, we've seen a pretty low inflationary environment throughout the year. We're between 1% and 2% in total. And the rollbacks, we think, can help over this quarter and the last few months. So generally, there are not any big concerns right now on inflation. Fuel costs are probably the one thing that, of course, we're watching because of the magnitude of it, and hopefully, those can come down over time. On inventory, it's something we watch really carefully. I've been in the company over 33 years, I've been a merchant and a operator, and it can drive so many things, from sales to markdowns, cash flow, as you know.

When you step back and look at the categories, and I'm going to talk about Walmart U.S. just for a second, because that's a majority of our inventory, the merchandise areas are in good shape. We're up anywhere from 1% to 4%. We have some investments in for deployment. Fuel costs are a bit higher, so that's inflated. And we have some manufacturing in the inventory. But when you look at the categories, most are between 1% and 4%. The only thing that's at that high end is consumables, which is fast-moving. So as we sit here today, I don't have any big concerns about inventory. If anything, there were a couple of categories, I think, in June and July, where we were a bit light on inventory. We'll manage that and we'll react appropriately based on what we're seeing from customers.

Operator: The next question is from the line of Kelly Bania with BMO. Please proceed with your question. Kelly, your line is live. Please ask the question.

Kelly Bania
Analyst, BMO Capital Markets Corp.

Q

Hi. Thanks for taking our questions. I wanted to just circle back on the topic of tariff refunds, and I'm curious just how you are communicating this to your customers and membership base to ensure you're generating the ROI that you expect from these investments. And are you seeing others across the retail spectrum also reinvest those, or do you expect them to also follow suit? And if you can also include just the thought process about kind of allocating those investments between grocery and general merchandise, presumably generated on the general merchandise side, but it sounds like some going into the grocery side of the store. So just more details on the tariff refunds.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Kelly, we've invested across the business in the store today, store being the e-site and the physical store, you'll see a combination of rollbacks across food, general merchandise, consumables, fashion. There were some seasonal rollbacks. There are other items where there are ongoing replenishable items. So we always try to invest in a mix, and we're not trying to take the investment and heavily weight it to a certain category. We know customers are looking for a variety of things across the basket. At a time like back-to-college and back-to-school, as you heard from Dave earlier, we think about decor and outfitting a dorm, then there's the school supplies, the school lunches, and so you'll see it throughout the store. The signing in the store, we feel great about the stores are doing a really good job signing it. And then, on our homepage, you'll see at the top left, one of the first tiles right there at the top is Rollbacks & More. It's always present. So we'll continue to communicate value any way that we can. We're proud of the reductions, and it's helpful for customers as we get into the back half.

Operator: Our next question is from the line of Paul Lejuez with Citigroup. Please proceed with your question.

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Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks, guys. Just on the price investments, could you just talk about how that's framing your comp assumptions from a traffic versus ticket perspective in the second half? Sorry, if I missed that earlier. Also curious on the OpEx growth in the US, it was up 7%. Were there any timing shifts that impacted that, or are the liability claims coming in a bit above what you thought? Just curious how we should think about that line item, and how it will grow in the second half of the year. Thanks.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

Sure. Let me take the first part on the composition of the comp. It was positive to see, it was great to see in the quarter that we grew in transactions. That's true at Walmart, at Sam's Club, it's true in International. So we see customer traffic growing around the world. We also had positive unit growth, and both of those combined, they are really the two things we talk about on a weekly basis. We start every Monday around the world in markets with something we call our trade meeting, and we talk about customer sentiment and how many customers we were able to serve, how many new customers we met, the units that we grow. So we look at both of those.

When you make investments in categories like we did across all the SBUs, you tend to see faster sales in categories like general merchandise in terms of dollars. In food and consumables, you take the prices down, the prices then are lower than they were, you see units grow, and then over a few weeks or a few months, that's when you start to see the more lasting impact in food and consumables. Your shoppers don't necessarily buy more food because they see lower prices, but over time, what we're trying to do with rollbacks and low prices is build trust with customers. We want customers to know they can trust us for a low price on a basket of goods over time, delivered the way they want, whether it's at the curb, it's at the counter, or it's at their home.

John David Rainey
Executive Vice President & Chief Financial Officer, Walmart, Inc.

A

Yeah. Paul, on SG&A, let me address that in a couple of parts. So one of the bigger drivers was depreciation. Depreciation is related to the CapEx that we've had, that's really been around supply chain automation and addressing speed. And look, we are really pleased with the results that we're seeing. Just in the current quarter, the number of units that we delivered in less than 30 minutes doubled from a year ago. 70% of all of our eCommerce orders are delivered same-day or better. That doesn't come without the investments that we've made. So we're really pleased there. We did have some pressure on what we're calling some of the self-insurance items, and the two categories that I would put in there are claims, as you asked about, but also group health.

And if you take the first half of the year, about two-thirds of the increase is from group health. And what's happening there is, our attrition has gone down quite appreciably in some cases. And by the way, this is a really good thing for our business. We want more seasoned, tenured associates serving our customers and members. But with attrition going down, the number of enrollees in that plan has increased. So given the size of the company, we've seen a little bit of pressure there. The last thing I'll say is, for many quarter to one to the next, sometimes you lean in a little bit more to investments in the business. And while I did not call that out in my prepared remarks, I think, this quarter falls into that category, where we felt like it was prudent to make some of those investments that hopefully benefit the back half of the year.

Operator: Our next question is from the line of Zhihan Ma with Bernstein. Please proceed with your question.

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Zhihan Ma
Analyst, Bernstein Institutional Services LLC

Q

Thank you for letting me in. I wanted to follow up on the Walmart U.S. brick-and-mortar comp, and I appreciate the comment that you were saying there's a bit of a pharmacy headwind in there. Also wondering if you're seeing any impacts from higher gas prices and people who maybe driving less to stores, or maybe the greater adoption of pharmacy delivery. Just trying to parse out how much of that is maybe some transitory impact versus a more structural shift in the channel. Thank you.

John R. Furner
President, Chief Executive Officer & Director, Walmart, Inc.

A

So let me start with the first part on the stores, and I want to be really clear, stores are an asset. They certainly have an impact on handing back the quarter because of pharmacy, which weighs heavily on the store comp, the majority of the business is in-store. But we're really pleased also with the delivery of the business. But when you step back and you think about stores and their role in the omni business, they are an asset because they position inventory, they position associates within 10 miles of 95% of the country. So the things you've heard this morning about fast delivery, accuracy, flexibility, shopping any way you want, they wouldn't come to life without our stores.

Now, historically, if you go back a few years, we had a store channel, we had an eComm channel, they were independent, they were vertical. So you could look at where you sold, the cost of each, we could measure profitability of each. But as we blended those together, what we're trying to do is say, think of us in terms of the top line, the bottom line, we'll manage the middle, and we'll be flexible for customers any way we can. And then the way that these get categorized, it's really where you decide to pay. If you pay on your phone for pickup, it's an eCommerce order and it's not a store order, but the store does the work, the store fulfills it. A fast delivery under 30 minutes, what you're actually doing is, you're paying on your phone and you're having someone go shop for you and bring it to you.

The store is fulfilling that inventory. So just again, stepping back and thinking about stores, there is more volume going through stores today than there ever has been, and it's growing. As a former store manager a couple of decades ago, I'm just in awe of all the things that the stores are doing to serve customers. They have so many things going on, they're executing, they're flexible, and it is a really important part of the overall business. We'll watch all the channels, we'll make sure the store experience is great. We're investing in new stores, we're investing in remodels, and we're investing to ensure that the stores are omni-enabled so that there can be support and provide whatever we need for the eCommerce business.

Operator: Thank you. The next question is from the line of Seth Sigman with Barclays. Please proceed with your question.

Seth Sigman
Analyst, Barclays Capital, Inc.

Q

Hey, good morning, everyone. I wanted to follow up on the Walmart U.S. comp. So when we look at the average ticket, it does seem like it's running a little bit below inflation now, and that's been happening for the last couple of quarters. I realize, a lot can contribute to ticket. But how is the composition of the basket changing? Are you seeing trade-down, are you seeing any big category mix shifts, are you seeing a shift to maybe smaller ticket items, anything transitory, how would you sort of frame that? Thanks so much.

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David Guggina

President & Chief Executive Officer-Walmart U.S., Walmart, Inc.

A

We continue to see broad-based share gains across many categories. Our strategy is working, and therefore we're gaining share. In grocery, sales increased mid single-digits with strong unit volume growth and continued market share gains, as I noted. Areas that I'd call on that business, one, we used some of the investments, refunds that we've got to invest into the grilling basket this summer, which fed eight people for under $40, with 13 of those items priced 16% below last year. We're also offering incredible quality for great value with our bettergoods brand, which is now a $1 billion brand for us. And then, to go back to back-to-school, we're bringing food into that play as well, including a new back-to-school lunch basket with 10 high-protein lunches for under $2. So that's just an example of a space where we're gaining traffic, we're gaining ticket size, and units are going up, and those investments are driving that momentum.

Operator: Thank you. At this time, we've reached the end of our question-and-answer session. I'll turn the floor back to management for closing remarks.

John R. Furner

President, Chief Executive Officer & Director, Walmart, Inc.

Yeah. First, again, I want to thank our associates for the work they did in the quarter and the things they do for our customers every day, and I want to thank you for taking the time and interest in the company. And I'll just close where I started. This was a good quarter for Walmart. Sales are over 5%, operating income up 74% without the benefit of the refunds, it was another strong quarter. I feel great about the way we're positioned. We've been investing in a strategy that delivers an omni business model across markets. I'm really excited about the extension of platforms into the international businesses. There's a lot of progress, the teams are moving with speed.

And when you just step back and look at the business that we have and the business we're building, it's very durable, it's reliable. There are a lot of things that we can do that we couldn't do in years past. Another strong quarter in eCommerce, another strong quarter in marketplace, advertising. We're seeing more and more people choose Walmart+, and it's exciting to see Walmart+ launch in Canada. So over time, I am more optimistic than I have been about the business model, and I look forward to continuing to see all the pieces come together as we move forward. Thanks again for your time and interest in Walmart.

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

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