Walmart
Q3 FY25 Buyside Investor Call
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Presenters
Steph Wissink - Senior Vice President, Investor Relations
John David Rainey - Chief Financial Officer

Q&A Participants
Jamie Barker - Eden Rock Advisors
Rupesh Parikh – Oppenheimer

Operator
Greetings. Welcome to the Walmart Third Quarter Fiscal Year '25 Buy Side Investor Call. If anyone should require operator assistance, please press star-zero from your telephone keypad. As a reminder, this conference is being recorded.

At this time, it is now my pleasure to introduce Steph Wissink, Senior Vice President, Investor Relations. Steph, you may begin.

Steph Wissink
Thanks, Rob. Good morning, everyone. Today's call is being recorded, and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements.

These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements, as well as our entire safe harbor statement and non-GAAP reconciliations, on our website at stock.walmart.com.

Jamie, I'm going to turn it over to you.

Jamie Barker
Thank you, Steph. Good morning, everyone. I'm Jamie Barker, the CEO of Eden Rock Advisors. I, in partnership with the Oppenheimer team, produced today's call, which Oppenheimer compensates me for.

I in turn donate my compensation to several veteran charities, including Stop Soldier Suicide and the Reserve Organization of America. I do this work in honor and memory of my many friends killed in the September 11th terrorist attacks, and I give back to the military for all they've done to prevent another 9/11.

I can't do what I do without the support of management teams like John David, Steph, and Carey, and corporations like Walmart. And as November is the month we celebrate Veterans Day, the timing of this meeting is particularly important. So, on behalf of the veteran initiatives, thank you for the privilege of your time today, and I'll hand it over to Rupesh to start the call.

Rupesh Parikh
Thanks, Jamie. So, good morning, everyone. Thank you all for joining us today. We've very excited to have with us today from Walmart EVP and CFO John David Rainey, and Steph Wissink, SVP, Head of Investor Relations.

So, the format to today's call will be a fireside chat with a number of questions I've prepared, as well as some from you on the call that were emailed to me yesterday. So, we plan to go until 9:45 A.M. Eastern.

And with that, let's get started. So, I'd love to kick it off with what your team is seeing right now on the consumer front, including with your lower income customer.

John David Rainey
Sure. Before I start, Rupesh, I want to thank you for hosting the call. And Jamie, I want to thank you for everything that you've done and committed yourself to over a couple decades. Jamie and I have partnered for several years now in this effort to help him support veterans. And as we just recently celebrated Veterans Day, we thought no better time to do this than the month of November. So, thank you.

In terms of what we're seeing with the consumer, we described it as being very consistent. We've--we, like everyone else, are looking for any inflection, whether it's positive or negative, given the perhaps tenuous nature of the economy. And we haven't found that. We've analyzed this every way to Sunday, even looking at the election. Like, did we see anything that was different then in consumer buying patterns?

And I wish I had something more to report. But it's quite consistent, and quite consistent across income cohorts as well. We see consumers are spending more of their wallets on food versus those discretionary items that tend to fall into general merchandise. They're being choiceful, discerning when they buy the larger ticket items.

There are items that are selling, though. We certainly see that the home category, toys are doing really well. Apparel is not doing as well, and we've talked about that probably being more related to the unseasonably warm weather. But we're actually somewhat optimistic going into the holiday period.

I think we can look at back to school and Halloween as perhaps indicators of how that might play out. And as we're sitting here a few days out from Thanksgiving next week, things are tracking more or less in line with our expectation, and more or less in line with what we saw last year.

Rupesh Parikh
So, just staying on the holiday topic, just any early thoughts on the upcoming holiday season, including with the general merchandise category. Are there any categories that your team is particularly excited about?

John David Rainey
The ones I mentioned, toys, hardlines, home, all stand out. We're also seeing automotive do well, not that anybody wants to buy a set of tires for their spouse for the holidays. But those are some of the categories that certainly stand out.

General merchandise is deflated by a few percentage points. And so, what you're seeing in our results is really pushing through more units. Pricing is in a relative good place on this overall. But Thanksgiving in particular, coming up next week, we're offering a basket of food of 29 items that are 3% less than they were last year. And you might remember last year, we discussed keeping the price the same as the year before. So, even on a year over two year basis, we've got prices coming down.

And, you know, we feel like, in the holiday seasons and shopping periods around that, this is Walmart at its best. Like, we really cater to our customer base, and we see them spending into these seasonal celebratory moments, and we want to be there for them in that.

Rupesh Parikh
Great. And I'm just going to a few shorter term questions that we got questions on from yesterday. So, how should we think about the Q4 topline guidance for plus 3% to 4% constant currency growth relative to the 6% plus number that your team just delivered in Q3? Is this conservatism, or is there something else that we should be thinking about?

John David Rainey
The 3% to 4% is our best guess right now. We'd obviously hoped to do better than that, but there is a whole lot of the holiday and the quarter itself to play out.

There are a few things, Rupesh, that are affecting the comp year-over-year. One is, we called this out yesterday, but Big Billion Days. That was about a 60 basis point lift in 3Q and a headwind in 4Q on the enterprise sales number. At an International segment level, it's a little more than 300 basis points.

We also have a little bit of the effect of the hurricane. And then last year the comp was actually pretty strong in Q4, so we're lapping a more challenging comp where there was more pricing in that comp versus it's more unit-based, if you will, in this quarter.

And the last thing I would say is just the retail calendar. With fewer shopping days, it always creates, I think, a little of trepidation among retailers that are wanting to make sure that we get the same amount of sales. So, those would be the factors that I would suggest.

Anything else, Michael or Steph? Okay. Yeah.

Rupesh Parikh
Okay, great. Maybe shifting gears just to Q4 operating margins, I think it would also be helpful for everyone on the call if you could walk through some of the key puts and takes on the operating margin line for Q4.

John David Rainey
I'd be happy to, but I don't want to miss the opportunity to talk about the improvement that we had in 3Q. We're really pleased with having, on a currency adjusted basis, 10% operating income growth, 9.8% operating income growth in a quarter.

And it's really demonstrating the power of our omni retail model, where it's not just a brick and mortar presence. It's not just a digital presence. It's all of these things working together, combined with advertising, Fulfillment Services, our Marketplace business. And it creates a more diversified earnings stream for us and, in some way, insulates us from some of the vagaries of the economy that, you know, may happen from one quarter to the next.

And so, we really like the path that we're on. As we've said before, not every quarter is going to be up and to the right. There's going to be some quarters where there is more pressure than others. The third quarter last year is an example of that. And we've got some pressures in the fourth quarter.

The one thing, Rupesh, that I would call out that's most notable is related to the wage investment we made at Sam's that was announced in September, and we talked about that on our call yesterday. But we're pleased, as we have said before, to be able to make these investments and still demonstrate that we're growing the bottom line more than the top line.

Rupesh Parikh
Great. And then I think you guys also called out currency headwinds as well in Q4.

John David Rainey
We do. And as we also noted, it's been less meaningful in prior quarters. In fact, it was a little bit of a tailwind in 1Q. We've got--we had a headwind in 3Q and a little bit more of that in 4Q. And so, I know that that's really hard for the investor community to model, so we wanted to provide that with a little more specificity so that it can help you as you think about our numbers.

Rupesh Parikh

Great. Then I wanted to dive deeper into gross margins for the Walmart U.S. business. We saw a very healthy 42 basis point increase in the latest quarter. Can you talk more about the benefits you're seeing from inventory management? And do you see additional opportunities from here on the inventory side?

John David Rainey
Sure. If it's okay, Rupesh, I'd like to take a step back and describe this broadly first, because there's a few things contributing to that. Probably 20-ish percent of that improvement is from the newer businesses that we have, like advertising and membership. And so, we're--we should continue to see the positive impacts to gross margin from those areas of the business as they become larger over time.

The second piece that I would point out too is an improvement in shrink and markdowns. And this really ties to the essence of your question about the benefits of inventory management. I can't speak for all retailers, but I suspect this is the case, that as we've tightened up inventory, got past some of supply chain issues that we had two years ago, we're starting to see the benefits of that in shrink. Shrink is not just theft. And so, you--we recognized that in our own numbers, and we see that in our results in the most recent quarter.

Anything that you'd add, Steph?

Steph Wissink
I would just say, Rupesh, overall when we look at the margin structure of the business, there are some offsets in merchandise category mix. Grocery and health and wellness in the U.S. segment are outgrowing general merchandise, and that continues to create a headwind in that gross margin line. We suspect that will continue for the next several quarters.

So, we're excited about general merchandise improving directionally, but it is still under comping the other two category segments within the overall business. So, I would just keep that in mind on the flipside of the ledger.

John David Rainey
Yeah. Let me actually be more clear on one point and talk about what it's not. And what it is not is raising prices. We like our price gaps. We're going to continue to be every day low price. We do recognize, if you look geographically across the country in the United States, there are areas that we have more work to do. There's other areas where we feel very comfortable about our value proposition.

So, that's a dynamic, fluid situations that we'll manage from quarter to quarter. But we like our price gaps, and looking into the future, we feel really good about it.

Rupesh Parikh

Great. And maybe one final short-term question. Just on GLP-1, we still get a lot of questions in terms of GLP-1 and the impact on food demand. So, from your team's perspective, have you seen any changes in consumer purchasing behavior related to GLP-1, or is it still early to definitively conclude?

John David Rainey
Yeah, I think we've been--I think we and others that are selling GLP-1 drugs have been relying on this it's too early to tell statement. I actually think we probably have enough time underneath our belt to say, like, we can start to conclude that overall we don't see a huge impact in the overall basket.

People, they do the obvious things. They're buying healthier foods. They're perhaps buying more apparel. They're buying items that maybe deal with the side effects of these drugs. But overall, it's--it represents a little bit of margin pressure. But the thing that I would want everyone to understand is that a pharmacy customer for us spends 3X what an average customer does.

And as you all know if you, like me, subscribe to any medications or whatever, like, there's a recurrence to that. There's a stickiness to those experiences, particularly if you are doing that through an app experience. And so, we actually want to use this as a strength and an opportunity for us to actually get more deeply embedded with our customers and engage them further.

And so, I--I'm not too worked up about the margin issues related to GLP-1 right now. I think you take the good with the bad on some of these things. It's a little bit of a tailwind on the top line. It's a little bit of headwind on margins. But overall, we want engaged customers on our platform.

Steph Wissink
Rupesh, it's Steph. I would add one thing to John David's comment because I think it's really important. As we've found better clarity in our healthcare strategy overall, we made a decision to close the clinics, and we've reemphasized our pharmacies as a community health hub.

And you're seeing a menu of services that is expanding beyond therapeutics and generics and branded drugs into a more robust assortment of health and wellness products and services, including test and treat. And so, we're really excited about thinking differently about the pharmacy.

And to John David's point, this is a really important customer for us. And we want to make sure that we're showing up in the communities and being that community health center and providing all of those basis services that are necessary to maintain good health and wellness.

Rupesh Parikh
And I guess just--that's a good segue into my pharmacy strategic question. There's a lot of dislocations that are going to happen on the pharmacy--on the drug channel in the coming quarters. How does Walmart about their ability to capture that share from drugstore challenges?

And then what do you see as the bigger opportunities on the pharmacy front to actually capitalize on these dislocations, should they occur?

John David Rainey
Yeah. You know, I think that just--there's a blanket statement that the medical care system, and I would extend that even to the pharmacy system, is far from optimized in the United States. And we look forward to seeing that improve over time, and we want to be part of that.

But that said, you have seen margins come down in pharmacy. If you look back over a 5 to 10 year period, when we look internally at our own business and how that's performed, we actually see opportunities that we control to improve margins in terms of how we deliver drugs and getting into some of the more supply chain logistics of that.

And so, we--we're not discouraged here. We know that this is a big part of our business, going to what Steph just said, and we want to be and provide that service for our customers.

As I noted, these customers tend to spend a lot more. They're heavily engaged with us. If they're coming to our app to renew subscriptions, and now have them delivered at their house as we're rolling that out, that's a big opportunity for us to, again, get deeply embedded with our customers to help provide the types of goods and services that they want. So this, I view, as more of an opportunity than a threat to us. I think that we can control a lot of the outcome for us here.

Rupesh Parikh
Great. So now shifting to some more strategic questions, starting with the topics that we've been receiving the most questions lately. So maybe to start if we can dive into your alternative revenue opportunities. So obviously there's a lot of enthusiasm from your team on retail media, marketplace, membership, income and fulfillment services. So I want to focus on three main areas, so advertising, marketplace and membership. So first on advertising, what inning do you think we are with the efforts? And then what are the bigger opportunities from here going forward?

John David Rainey
Yeah. This may sound like a little bit of canned answer, Rupesh, but I kind of think that with all three of these, we're in the second or third inning for different reasons, but we'll start with advertising. Again, early innings, let's just call it that. We're still developing capabilities. We're still actually learning what works with our customers. We've talked about beta tests that we're doing with customers, where we're testing two ads, four ads, eight ads, seeing how they respond, seeing what their return engagement is, the stickiness of those things, the conversion level of all that. And fortunately for us, and I think this is just a huge advantage for a company like ours, we have so much data that there's a very high fidelity around some of these tests and what we can do with that.

And so quite encouraged about that, but I would say early innings, particularly if you look at it relative to the overall level of GMV, and certainly relative to those that people might say are best-in-class. The other opportunity for us in advertising is one that I don't think has really been demonstrated well before, and that's the ability to connect the physical world to the digital world. And we're excited about the acquisition of Visio, which hopefully will close in the near future. But with our physical properties, our brick and mortar properties, you can imagine, Rupesh, you go into like a digital channel, and we surface an ad to you for a particular item that maybe we think you want to buy, but you don't engage at that point in time, but then 10 days later, you walk into a store, and you buy that item. We can connect those two data points, and that's really good data for advertisers, really high return on investment on that, and so we're looking forward to building that out. And with that specific use case that I'm talking about, I'd say we're in the top of the first inning. We're not even scratching the surface of what we're capable of.

Steph Wissink
Rupesh, it's Steph. I would also add, as the digital assortment continues to grow, advertising can also be a really important navigation tool to help customers discover and find what they're looking for and be inspired. One of the things that struck me about our third quarter is when you look at our general merchandise assortment, the areas of the highest innovation and newness are the areas that are performing the best. So customers are signaling to us that they want new things. They're excited about new things, and advertising is one of those navigation points that we can provide in the digital experience to help them find that thing that they're looking for. And I think that's increasingly how we're viewed by our customers and our members, is that Walmart is the place that has their thing, and that's really important for us as we think about growing our marketplace assortment and growing our first-party assortment online and in stores.

John David Rainey
The other thing I'd say, Rupesh, on this, is that we tend to focus on the US business, because it's front and center. It's the largest segment that we have. But there's a significant and largely untapped opportunity in some of our international markets too, that I would call out, are Mexico and India. And in India in particular, you've got phone pay and flip card. And I don't want to speak to the specifics of what each of those are doing, but they have the largest market share in the largest market in the world. And so you've got a lot of eyeballs coming to their platform, which advertisers want to follow eyeballs.

Rupesh Parikh
Great. That's helpful. Color. And then just next on marketplace. Your team has made a ton of progress. I think on your call, you guys are now up to almost 700 million SKUs. What are the bigger opportunities left on the marketplace front?

John David Rainey
We want to have more SKUs. We want to have a broader assortment. I don't know if you think about the 700 million skew number, do we need to double that, triple it, quadruple it? I can't tell

you that today. I don't know that we need to have as many SKUs as what others have. I don't know that that's necessarily the recipe for success, but it's certainly more than what we have today. And so broadening our assortment is a big part of our plan. Because even if you take a category like general merchandise, which we talked about with all of you, that we want to continue to grow that, we need to have more than just first party merchandise. Doug talked on the call yesterday about how we historically have under penetrated in apparel. We haven't had the items that people want. With our third-party marketplace, we can do that, but we can also provide things that maybe appeal to a broader customer base.

We've talked about some of the Apple products that we're providing, Beats headphones, other items that maybe you associate with a more affluent customer base. And as we get those, there's a bit of a follow on effect. And again, no different than what I just described with advertisers, but if you're a seller of goods, you want to go where people are going to shop. And as we continue to gain share and broaden our platform, it contributes to the growth of this overall marketplace. Fundamentally, if you think about a marketplace, it's a two-sided network. You have consumers on one side and sellers on the other. And with any two-sided network, there's always a chicken and egg problem. It's hard to develop one side of the network without having the other.

You can have a really compelling value proposition as a third-party seller, but if there's no consumers there, it's of little value to you. We start, we start with hundreds of millions of customers that are coming to our channels every single week. And so we have one side of that network effectively built out, and so that's enabling us to bring on sellers at a pretty rapid pace.

Steph Wissink
Rupesh, it's Steph. I would add one illustration of this, and it just reinforces the value of the omni channel. Some of these sellers are small aspiring businesses. They're brands that aspire, at some point, to be inside of a Walmart store on a shelf. And this is a gateway, particularly as we think about some of our commitments around made in the USA and investing back in the communities. These are small businesses, and we want to provide platforms where they can reach customers, as John David was mentioning. And it's probably one of the most inspiring events every year that we host, is an open call event where we look at emerging brands in the US, and we provide a gateway into access to customers, and a lot of that starts on our marketplace. So it's really inspiring as well.

Rupesh Parikh
And then when you look at the marketplace, so we've seen Dyson and some other brands come on to walmart.com, are you guys happy at the pace of these premium brands coming on your website? And just any sense of whether these could accelerate going forward?

John David Rainey
Are we happy with it? I think we'd always say we want it to be faster. There's not too many things here that we sit back and like, oh, we really nailed that one. And I would put this in that category

too. Everything is faster, faster, faster here, like that is the thing that the team is focused on, is speed. And so I'm modestly pleased with the pace, but I would want more.

Rupesh Parikh
Great. And then just to wrap up on alternative revenue opportunities. Just finally, on membership. So another quarter double digit growth for Walmart+. So as we think about your Walmart+ and Walmart+ assist offerings, is there anything that surprised your team thus far in what you're seeing here?

John David Rainey
Well, I've been a little surprised at the uptake in the Walmart assist offer, and that's been one that I think the price point around that is it's a really compelling value proposition for customers. And if you think about some of the customers that they don't have as much money as someone that maybe can afford a membership like that, and you wonder why they would subscribe to something like this. Many of these customers don't have a car. They're relying on public transportation or other means, and so the opportunity to have something delivered to your house is quite a compelling value proposition. So I've been a little surprised with that. It's been really exciting to see the uptake of that.

Overall, I'm not sure there's much else in membership, I would say has surprised me. We're early on, and I when I opened my comments too, Rupesh, I talked about we're in the second or third inning, and for different reasons. With marketplace and advertising, I would say we're still more in development mode there. With membership, I wouldn't characterize it that way, but membership is one that as we get better at all these other things, that value proposition becomes more compelling. And so we're much further along, and obviously in the development of that, it's been rolled out for years, but you have to continue to improve the value proposition, and that's on us to make sure that we're delivering items same day, next day, within the time frames that we say, that we're providing the assortment that they want.

And as we do all of these other things, membership, then sort of takes care of itself. And so I don't view membership as a number that we should necessarily chase. I view it as one that sort of is a piece of the puzzle that is solved after we get really good at everything else.

Rupesh Parikh
And then we see Walmart+ different perks, obviously, Burger King, I think was one of the recent additions. How has consumer receptivity been to some of these perk additions?

John David Rainey
It's been good. It's -- I've been encouraged by this, but I don't want to put too much emphasis on adding perks, because I think that can be a little bit of an arms race. You can chase after that to where this profitability becomes more challenging in this area. Fundamentally, I think we need to be really good at the basics and the utilities that a customer achieves or gets from a membership is actually having things delivered and within a time frame that is very convenient

for them. And so we've got to continue to do that. And all the other perks and added bennies (ph) to this are kind of gravy, is the way that I think about it. But the main utility in this is just in the free delivery.

Rupesh Parikh
Great. And then moving on to automation. So your team has been very upbeat in terms of what you've been seeing on the automation front. I believe, at this point, you guys are still in the early innings with maybe 15 or so of your DCs (ph) being fully automated. Can you frame for us how we should think about the potential of benefits going forward? And then any big surprises to date with these efforts?

John David Rainey
So there are a few surprises. They're not all to the positive, and I'll talk about that at the end. But we're we talked about more than 50% of our DCs have been automated now, and those are serving about 2,000 stores in the US. I've been really pleased with both our FCs and DCs and the progress there. If I were to give us a grade on this, I'd probably say it's an A. I really think the team has done a great job here, but what that has effectively done is automate those facilities.

The next leg of automation as we continue to complete the network of DCs and FCs, and then get into the store automation that begins to automate more of the store. And that's what's to come, and that's where perhaps that will drive more significant benefits for us. And so that's how I'd characterize our state of automation. Getting back to what surprises to date, I don't want to say--maybe surprise is the wrong way to characterize it, but with anything that you do, there are going to be areas of business where you outperform in areas of the business where you don't perform as well and are more challenging.

And there are three buckets, rough buckets, if you will, of automation for us. There's what I just talked about with FCs and DCs. There's store automation, which you've seen, Rupesh, and many on the call have seen, where we have these MFCs, or now we call them APDs. Just basically, at the end of a supercenter, we've got automated storage and retrieval of inventory to fulfill from store. So that's the second bucket. And the third bucket would be checkout, front of the store automation. And so if I look at the second bucket, we've got some work to do there. We feel pretty good with the hardware. There's some kinks in the software. I don't have any concerns about our ability to work through this and achieve the benefits, but it's not everything's up and to the right. You hit some pockets where there's some challenges and we've encountered that we're working through it.

Front of the store automation is, I think, a more challenging one. And so far as there's just not a solution that's completely identified yet. RFID, people have talked about, but you can't put RFID on a head of lettuce. You can use camera technology like we're doing in our Sam's format, but that's more challenging if you've got nail polisher that's buried underneath toilet paper in your shopping cart. So for Walmart US, I think we've still got work to do on the front of store automation, but please, for the audience, nothing I said here should make you think differently about the financial goals that we've laid out. This is all contemplated in there.

With Sam's format, let's talk about the automation there, because this is one that probably, might be the thing that I am most excited about as I reflect on the past few months. And many of you know that we've been on a journey of automating those stores and scan and go has been a big part of that. Fully 30% of the transactions in a Sam's Club is done through scan and go. And for those less familiar with that, that's where you can use your app and you scan a bar code as you go through the store, and then you bypass a checkout when you go to leave the store.

We've complemented that with a technology where we have these exit arches that has camera technology that reconciles what's in your basket to what's in your scan and go app. And so a few weeks ago, in Grapevine, Texas, we rolled out a store that was 100% automated, 100% scan and go. And you always wonder about the additional friction that you're going to provide to, or give customers by forcing them into an experience like checking out through the app. And anytime you add friction in any digital experience, you're going to have some customers that don't want to do that and walk away.

And so a bit of a calculated risk on this, and we're exceedingly pleased with the performance we've seen thus far. The other question that some may be asking is, what about shrink? Well, we don't see any appreciable difference in shrink in these automated stores with the checkout arches than we do in a normal store. And so this is an example where, because of the lower SKU count and the bigger, bulkier items, the checkout works really well. And so very, very excited about that, and looking forward to rolling that out to the entirety of our clubs.

Steph Wissink
Rupesh, it's Steph. I would add the members are giving us a very, very strong vote of confidence. The NPS on the combined technologies is 90. Members love this. And one of the things that members dislike most about the club experience is the cues. Waiting in line. So this solves for two of the things that are the things that they dislike the most. And I think the Sam's team is highly motivated to continue to engineer that member experience in club to be as seamless as possible.

John David Rainey
And look, you know what? We don't have a 90 MPs everywhere in the business. We know that we've got challenges and work to do, but I'm not aware of another experience anywhere where there's an MPS of 90. If someone on the call knows that, you should email me to correct me. But I love the customer feedback on this.

Rupesh Parikh
So this prototype works consistent with your team's expectations, like, is this a model that you guys would continue expanding with Sam's going forward?

John David Rainey
I think so. We're very encouraged by this. We'll certainly learn some things and probably tweak some things. But I think this is has -- I don't want to speak for Chris Nicholas, who's the CEO, but feel like this has emboldened us a little bit to take some of these risks, because we know that this is probably a glimpse into the future where you've got a more automated format.

And look it fundamentally comes back to this NPS score. If we were forcing customers into experience that saved us costs, but was an abysmal experience for them, that would not be good. But given the customer feedback, I think that that has really emboldened our thinking on this.

Rupesh Parikh
Okay, great. And then just staying on the Sam's topic. So, you know, another very strong quarter, 7% plus comp. I think membership income growth was trending in the mid-teens. As you look at Sam's Club outside of, you know, store growth, what are bigger opportunities to see on the membership and share gain side as your team looks forward?

John David Rainey
Yeah, a couple things there. One is club growth. When we reflect back on the last several years, we probably missed some opportunities by being a little too disciplined on some of the areas where our value proposition of Sams really appeals to that that demographic in certain geographies, and so we've been pretty targeted with where we think we have an opportunity for some club expansion. So excited about that.

The second is, when you look at cohorts of members and their renewal rates, where we have an opportunity is in first year renewal rates. When you have a tenured member, we're pleased with what we see in renewal rates there, but we have a higher rate of attrition among first year renewal rates, or first year customers, members, and so we have work to do there. I think that's an opportunity for us.

Steph Wissink
Rupesh, one of the things that the teams is really focused on at Sams is understanding customer cohorting in a new way and member cohorting. And the young customer, Gen Z and millennials, is a real focus. You can see it through the merchandise assortment, design and development, the club experience. We've talked a lot about automation and technology.

They're really leaning into this next generation member and thinking about what does the club of the future look like for that member in designing into that? And we are seeing some progress on those first years and those tenured renewals, particularly in that cohort. So they're finding the value proposition very quickly, and they're, again, giving us a vote of confidence by renewing at a higher than average rate. So we're seeing some good progress, but definitely an opportunity as we think about going forward and building out the club network even further.

Rupesh Parikh

Great. And then switching gears to maybe a few questions on your international business. So strong double digit top line growth in your international segment this past quarter. What are the key markets that are driving the momentum? And how does your team feel about the sustainability?

John David Rainey
Feel really good about the opportunity and sustainability in that segment. Mexico, or more specifically, WalMex, is obviously the largest contributor to that right now, and they're performing well. But in terms of the sequential or year over year improvement, both in sales and profitability, India and China have been driving more of that.

China, the business there, Doug noted this on the call he was just recently there, and we've opened another Sam's Club there, and that format works exceedingly well in China. The numbers would amaze you when we talked about the annual sales and some of those clubs. So really pleased there. But India in particular, specifically with respect to the bottom line, too, is where we're seeing a lot of the improvement, as I think everyone probably intuitively knows.

Flipkart and Phonepe have historically been loss making as they are more newer startup type companies. They are reaching a maturity level where Phonepe just recently reported that, excluding ESOP competition, they reported their first annual profit. So quite encouraged by that. Flipkart is on a similar journey. They're not quite there, but excited about the continued improvement of each of those.

And stepping back and thinking about, why is that? Well, these are digital platforms, much like what we're doing in our marketplace, in other parts of the US business. And with a digital platform, what you want to be very focused on are the unit economics and the contribution margin, because you have a larger fixed investment, which you need to overcome with scale.

And as these companies are continuing to grow and add new members that are very engaged, they're able to, with a positive contribution margin, get to a point because they have the scale in the business to turn profitable. So that's what's driving that. And there's nothing I've seen in either of those businesses that would make me think differently about the next few years versus what we're seeing right now.

Steph Wissink
Rupesh, it’s Steph. I would add just the strategic importance of markets like India and China to the enterprise. We're learning a lot about delivering on a digital platform with speed and accuracy. Those markets are significantly more mature in terms of digital penetration, both on the utility side, not necessarily on the retail penetration side, but in China, our business is almost half digital and half physical.

So we can learn a lot for the rest of the enterprise, especially the US, about how to build an infrastructure that delivers with speed and accuracy on a consistent basis. And so the teams in

China are helping to educate the teams in the US about what those opportunities are. And I think we're excited about what we're learning about customers willingness to pay for speed, but also, how do we execute with speed and accuracy on a consistent basis.

Rupesh Parikh
Great, and I'm going to go back to just general merchandise. Your team had a very strong positive inflection yesterday in general merchandise, which it was definitely a surprise for us. We didn't expect it to be as strong, and especially in light of Target's report today. Just anything surprising to your team, and how do you feel about the sustainability and momentum in the GM category?

John David Rainey
Well, it's hard for us to very specifically, like, ascribe percentages to how much of this is macro economy and consumer behavior changing versus what specifically are things we're doing, but we know it's some of both. And I can point you to categories on our marketplace, like hard lines, home, tires that are all grow -- toys that are all growing north of 20%.

And obviously, if you look broadly in the economy, these general merchandise items aren't going 20% for everybody. So I think some of this is specific to us, but I want to be clear, like, and this is why I paused a little bit at the beginning, we can't claim victory here. When we look at the mix of our business and GM, it's still down 100 basis points year over year, and we know we have a long ways to go. And I certainly don't want to make a statement that suggests that, broadly, consumers are, you know, feeling flush again. Ready to spend in the general merchandise.

I think this is a slow road up to the right. I don't want investors to think about, okay, check this box. We don't have to worry about anymore. We're worried about it. So, you know, we need to get better here and so the progress is small, and we should be sort of metered with our expectations around this.

Steph Wissink
I would just add, Rupesh, from the merchant team, they're really excited about the holiday assortment. We feel like we've got what customers are looking for. And to John David's, point, merchants are buying first party inventory with conviction because they can complement it with a third party marketplace assortment that is a long tail of SaaS choices.

So I do think we feel really good about our inventory position. We feel really good about our marketing and our messaging, and you're going to start to see more of that as we kind of move into the window of where customers are starting to activate around the holiday season. And we had a really good October event. That's a bit of a kickoff event for the holiday season, and I think the team feels really good about the choices we've made, the inventory we have, where it's deployed, and we're ready to go when customers are ready to start shopping for gifts.

Rupesh Parikh

Great. So I'm going to shift the two final financial questions in our last five minutes. So SG&A, deleveraged during the quarter, which is directly consistent with how your team has guided this year. How are you thinking about the opportunities again, starting to leverage -- again, starting to leverage the SG&A line over time?

John David Rainey
Sure, I appreciate this question, because this is the benefit of this call. It gives me an opportunity to clarify comments that I made yesterday. I talked yesterday about some of the puts and takes, opportunities and risks in SG&A. And I think some read into that as this is more of a risk for us and we can't get to a point where we're going to leverage SG&A.

Let me be very, very clear, we intend to leverage SG&A. We talk about all of these opportunities with you in terms of the automation in our business and the things that we're doing. I simply wanted to highlight yesterday that because of the mixed change in our business becoming more digital, which carries a higher SG&A, that it may be a little flawed to compare to historical numbers that were high teens on SG&A as something that we can get back to.

A goal that we have internally is to get to 20%. And you know, to be very clear, like we don't have 100% line of sight to how we get there, but this is a multi-year journey for us, and we're going to work to do that. We think that there is significant opportunity and SG&A will leverage over time. Not every quarter, maybe not every year, because of the some of the challenges I've talked about with mix, but we certainly know that we can be more efficient on cost.

And the team has got a very concerted effort here. We've actually internally called it EDLC. Nothing new to what we've talked about at Walmart, but the last several years through the pandemic was really a disruptive time for us. And if you think about where Walmart was prior to the pandemic, versus what we had to do during the pandemic, we propped up a lot of the services that we provide today, like being able to pick up online -- or pick up groceries curbside and we advanced some of our e-commerce efforts, and that required a lot of investment.

And I think through that period of time, we may have gotten a little bit of away from some of the focus that we've historically had on EDLC. And so the teams, the segment leaders are back focused on this. And I can give you a laundry list of items to where we're going line by line, looking through like where we can achieve efficiencies, where we can lower costs, where we can combine capabilities to leverage procurement and things like that. And so we're very focused on this, and I want everyone to know that we're going to make progress here, but it -- this is one of the things that probably has fits and starts to it, as we see the influence from mixed changes in our business.

Rupesh Parikh
Great. And maybe one final question. Your team initiate, you know, what some viewed as long, aggressive, longer term targets for 4% sales growth and 4 to 8% operating income growth. So as you look back, you know, first, what surprised you the most the past few quarters, versus when

the initial targets were initially set? And the secondarily, you know, any opportunities that you're most excited about going forward and delivering on these targets?

John David Rainey
Good question. The thing that has most surprised me has been the progress we've made and our core e-commerce business. So excluding advertising fulfillment services, all these other ancillary businesses, but just core e-commerce, having a good that is bought from a customer member and having it delivered to their location.

We've made really good strides this year. We talked about this on the call. I think three consecutive quarters of delivery cost, net delivery costs coming down 40%. This has happened faster than I imagined, and there's a number of reasons for that, but two that I just want to call out are -- it's worth repeating.

I mentioned this on the call, but the densification of our network, we've been talking about that and telling investors about that for some period of time, but we put some numbers to that yesterday when we gave -- we talked about batch density. And batch density for us is the number of orders per delivery. We've seen a 20% improvement in that year over year. So you can just imagine, like you can easily do that math in a model to think about, okay, you're allocating these costs over fewer deliveries now, and that actually dramatically improves our P&L, and I expect that to continue to improve.

The other area that we've talked about, and this -- I've also said this has surprised me is the number of customers that are willing to pay something just a little bit more for to have an expedited delivery. And we're defining that between less than one hour or less than three hours. 30% of the orders in the US that are coming from -- being fulfilled from a store someone is paying for to get this.

And by the way, like there's not a lot of companies that can do that, certainly not at our scale. If you think about needing ingredients to buy it to make something for dinner tonight, and you need that between the hours of 4:00 and 5:00 pm, we can do that for you. And you see this by customers continuing to pay for this. Like, if we weren't fulfilling this promise, we wouldn't have the retention around this. And so I've been really excited about what we've seen, just in core e-commerce there.

In terms of what I'm most excited about going forward, there's a lot of things, Rupesh, but I would describe it this way. I think from what I've read over the last day, this narrative is beginning to be understood with the investor community, but it's how all these things work together. We're not a one trick pony, and I think people understand that now.

We are fundamentally changing our business to a more diversified set of offerings for our customers and members, but also profit streams, which in order to investors. And so we're excited about that, and I think there's so much more opportunity ahead. I'm glad that the market is beginning to realize this type of opportunity that we have, but we're not anywhere close to being done here.

Rupesh Parikh
Great. Thank you. So we're out of time. So thank you, John David and Steph, for joining us. And thank you for everyone else on the call. And once again, we'd like to thank Walmart for the ongoing support of our military veterans.

John David Rainey
All right.

Steph Wissink
Thank you, Rupesh.

Operator
Thank you for participation. You may now disconnect your lines at this time. Thank you.