Q4 2019 Earnings Call

Company Participants

- Brett M. Biggs, Chief Financial Officer & Executive Vice President
- C. Douglas McMillon, President, Chief Executive Officer & Director
- Daniel Binder, Vice President-Investor Relations

Other Participants

- Chuck Grom, Analyst
- Edward J. Kelly, Analyst
- Edward Yruma, Analyst
- Karen Short, Analyst
- Kelly Ann Bania, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Trussell, Analyst
- Peter S. Benedict, Analyst
- Robert Drbul, Analyst
- Robert Ohmes, Analyst
- Scott A. Mushkin, Analyst
- Seth I. Sigman, Analyst
- Simeon Ari Gutman, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Greetings. Welcome to the Walmart Incorporated Fourth Quarter and Fiscal Year 2019 Earnings Call and Q&A. At this time all participants will be in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Please note, this conference is being recorded.

I'll now turn the conference over to Dan Binder with Investor Relations. Mr. Binder, you may begin

Daniel Binder {BIO 1749900 <GO>}

Thank you. Good morning and welcome to Walmart's fourth quarter fiscal 2019 earnings call. I'm joined by Doug McMillon, Walmart's President and CEO; and Brett Biggs, Executive Vice President and Chief Financial Officer. In a few moments, Doug and Brett will provide their view on the fourth quarter, our outlook for fiscal year 2020, and discuss progress on our strategic initiatives. That will be followed by our question-and-answer session.

Now, before I turn the call over to Doug, let me remind you that today's call is being recorded and will include forward-looking statements. These statements are subject to the 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 earnings release and in our filings with the SEC. Please review our press release and accompanying slide presentation for 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.

It is now my pleasure to turn the call over to Doug McMillon.

C. Douglas McMillon {BIO 3063017 <GO>}

Good morning, everyone, and thanks for joining us today. We're encouraged by our performance for the year, because we believe our customers are noticing our improvements, but we continue to see many ways we can serve them better. We're even more convinced they want us and expect us to bring our stores and e-commerce businesses together in a digitally connected seamless way that make shopping easier. We experienced a favorable economic environment in the U.S. for most of the year and our associates made a lot happen to drive the strength of our results. Brett will go into more detail on our results shortly.

I am particularly encouraged by our sales results in a quarter. In Q4, Walmart U.S. grew comp sales 4.2% excluding fuel, eCommerce sales increased 43%, and we gained market share in key category, such as grocery and toys, according to Nielsen and The NPD Group. Sam's Club finished the year with another strong quarter with comp sales growth of 5.3% excluding fuel and tobacco, and in International comps were positive in the majority of our markets. Strong top line results allow us to reiterate the FY 2020 sales and profit guidance we gave in October even as we landed FY 2019 ahead of where we expected.

We strive to make every day easier for busy families as we increase convenience and save them money and time. Part of our strategy is to build on our existing strengths, such as having a broad assortment, including fresh and perishable foods, within 10 miles of 90% of the U.S. population. Our stores and clubs are becoming more digital, and we're using technology to change how we work. More customers can now access our brand through multiple channels, and it's important that we engage them in different ways.

We've learned that those customers who shop with us both in stores and online spend about twice as much in total, and they spend more in our stores. Across the business, you can see examples of how we're meeting the changing needs of customers and delivering solutions that are increasing customer engagement. In the U.S., we offer grocery pickup at more than 2,100 locations and grocery delivery at nearly 800 locations, which represents about 69% and 36% of the population, respectively.

Feedback from customers about these services continues to be very positive, which speaks to the capabilities of our roughly 37,000 personal shoppers. In Mexico, we're delighting customers with new experiences, such as a secure digital payment option that's available on their mobile phones and in-store kiosks that offer a broad assortment products with flexible pickup times.

In addition, through our investment in the crowd-sourced delivery platform, Dada-JD Daojia, customers in China get their merchandise in less than an hour of placing the order, and it's picked from a network of more than 280 locations. We continue to build trust, which we believe will become even more of a competitive advantage. Around the world, Walmart plays an important role in the communities we serve by using our scale for good, whether it's our work to promote small businesses and local farmers in places like India, or larger scale initiatives, such as our effort to double our use of renewable energy in the U.S. by 2025, customers can feel good about Walmart, a company that starts every day with a goal of earning their business.

It's nice to be recognized for the work we're doing to promote shared value. In fact, the company recently received an A- rating on the CDP's annual environmental scorecard, up from a B rating last year, and we're ranked as the survey's top performing U.S.-based food retailer. Shared value is an important concept and something that we have fully embraced as we think about how to best: allocate our time and capital; deliver strong, efficient growth; reduce costs; and operate with discipline. Within this construct, customers, associates, communities, and shareholders can win.

Now, let's move on to highlights from the year for our operating segments. I'll begin with Walmart U.S., where the team had a great year. Comp sales growth of 3.6% for fiscal year 2019 exceeded our expectations. The work the team has done to balance inventory levels with in-stock rates is impressive. The team leveraged operating expenses overall, even as we invested in wages, training, technology, and eCommerce.

Store-level productivity is strong, due, in part, to the training we're providing our associates. As the nature of work continues to change, we're innovating to empower associates to better serve customers as they develop new skills, thrive in their jobs, and grow in their careers. This coming year, we'll add new ways for associates to better manage their schedules and earn greater incentive payouts, and we'll introduce new training options, including through advances in technology and the gamification of educational experiences.

Overall, I'm pleased with what I see operationally and with our merchandising. The investments we're making in our people, remodels, and technology are helping to ensure that our stores are easy to navigate, fast, friendly, and fun to shop. Having a great store or site starts with having great merchandise. In our stores, you can see the quality improvements in fresh food and in apparel with our new private brands. We're also doing well in our seasonal businesses and toys.

We're making progress in eCommerce. Our focus remains on earning repeat visits and strengthening our assortment of merchandise. We're expanding our assortment, improving search, enhancing our website, and executing better on the fundamentals, such as product reviews, inventory mirroring, and on-time delivery to accomplish this. And, of course, we remain committed to providing a superior value proposition as we compete aggressively on price across a broad spectrum of products.

Sales in eCommerce increased 40% for the year. We will continue to play offense and innovate as we shape the future of omni-retail. This includes the expansion of innovative services like online grocery pickup and delivery. Our previous investments in fulfillment centers and systems, plus our acquisitions, are helping us drive strong sales, but we need to make more progress to improve profitability. Our fulfilment shipping costs are improving as we continue to enhance our assortment, repeat visits should increase and contribute to improved profitability.

We made good progress during the year to add more brands and exclusive items through new partnerships with Lord & Taylor, Ellen DeGeneres, Advance Auto, Sofía Vergara, and Fanatics, to name a few. These initiatives are contributing to the improvements we see in key metrics, like the customer value index, as well as MPS, which is now more than 10 points ahead of last year. Many opportunities exist, mainly driven by data, and we'll look leverage our unique assets and capability better than we do today.

At Sam's Club, the team has taken bold steps to transform the business by focusing on people, products, and working in a more digital way. Excluding fuel and tobacco, comp sales for the year increased 5.7% and eCommerce sales grew 27%. When someone downloads the app, shops on SamsClub.com, or uses Scan & Go, they're more likely to renew. We're encouraged by the trends we see in membership. As of year-end, we saw improvements in signups and Plus penetration, and membership count is essentially flat to where it was a year-ago, despite the closure of nearly 10% of the fleet.

In International, eight of our markets posted positive comp sales for the year, including the four major markets and overall sales increased 2.9% in constant currency. It's been a big year for International as we run the business while shaping the portfolio. Walmex continues to be strong. The improvements we're making are helping drive traffic and we saw improvements in NPS in each of our formats. Similar to the U.S., we're now leveraging our store base to offer same day delivery. We recently expanded the available assortment to offer more than 5,000 general merchandise items to this service. We'll continue to invest in our stores and in eCommerce to build an omni-channel experience tailored to customers in this market.

Our business in Canada also continues to perform well. The team is moving quickly to modernize the store base and expand omni-channel capabilities with a focus on gaining greater access to urban markets. For example, we've entered into new partnerships this year in cities like Toronto and Vancouver to help expand our delivery options in grocery and general merchandise.

In the UK, Brexit and the potential implications of a hard Brexit is increasingly on the mind of everyone. No matter the situation, Asda will always work to keep prices as low as possible for its customers. I visited our team in the UK a few weeks ago and I'm really impressed with their performance, their attitudes, and their leadership. They're amazing.

In India, we remain optimistic about the eCommerce opportunity, given the size of the market, the low penetration of eCommerce in the retail channel, and the pace at which it's growing. In the future, we hope to work with the government for pro-growth policies that can allow this nascent industry and the domestic manufacturers, farmers, and suppliers that benefit from it, to develop and prosper.

In terms of the regulatory environment, we were disappointed in the recent change in law and the lack of consultation, but the team has worked to ensure we're in compliance with the new rules. We're committed to providing sellers with a world-class platform to sell on and customers with a high quality of service. We hope for a collaborative regulatory process going forward which results in a level playing field.

Turning to China, we continue to see significant growth opportunities. Overall, we've identified provinces that are a priority for us and we're improving the value proposition through better quality of fresh items, as well as with new store designs and omni-channel initiatives. Uncertainties with trade or other macro factors can make for a more challenging environment, but I like the things we're doing to position ourselves in this important market.

Across International, we're accelerating omni-channel capabilities. We're the furthest along in China due to the partnership with JD.com, our relationship with Tencent, and the investments we've made in last-mile delivery. We're also accelerating omni growth in Canada, Mexico, Chile, and Japan through partnerships and acquisitions. The International team has the talent and scale to deliver sustainable growth for the company and to make a difference in communities across the globe.

In closing, let me say how pleased I am about all that we've accomplished over the last year and how excited I am about what's still to come. We see the future as a frictionless experience across stores and eCommerce, but we have more work to do as customers raise their expectations, competition persists, and the omni-retail story continues to evolve.

We fully expect the pace of change to accelerate in the next five years versus the last five years, as emerging technologies come together to transform retail even further and we're adapting. What we once could only imagine a decade ago will increasingly become reality. We will embrace new technologies to solve problems for customers in a seamless way and equip associates with tools to make them more productive.

Within our ecosystem, we will pursue and grow adjacent businesses to increase customer engagement and we'll leverage core capabilities to deliver services to others that could generate new revenue streams. Our commitment to the customer is clear. We'll be there when, where, and how they want to shop. Our distinctive set of assets, financial strength, and innovative culture are delivering to customers new experiences that are uniquely Walmart.

Brett, you want to pick it up there?

Brett M. Biggs {BIO 17414705 <GO>}

You bet. Thanks, Doug. Good morning, everybody. I'm excited to talk about our results this morning. Walmart had a really good year and we're pleased with the fourth quarter results as well. We have momentum as we enter the new fiscal year, and we'll continue to execute against our strategic plan, which we believe is the winning formula long term. I'll start this morning by highlighting some key accomplishments for the full year.

Total revenue in constant currency was just over $515 billion and increased $14.8 billion, or 3%. Walmart U.S. comp sales grew 3.6%, the highest annual growth rate in 10 years. Walmart U.S. eCommerce sales grew 40%, nearly doubling the sales of that business over the past two years. We made a number of strategic choices to position Walmart International for success, including the acquisition of a majority stake in Flipkart and the sale of the majority of our business in Brazil. We made progress on expenses, and I'm particularly proud of the leverage in Walmart U.S. stores. Excluding discrete items from last year, we leveraged total company expenses slightly, as we expected, coming into the year.

Adjusted EPS increased 11% to $4.91, operating cash flow was strong at $27.8 billion, and the company returned $13.5 billion to shareholders through dividends and share repurchases. We're pleased with what we accomplished, but not satisfied. This year and quarter are a further proof that our financial strength gives us the ability to deliver near-term results, while positioning the business for the longer term. We're leveraging our scale, unique assets, and financial strength in ways others can't.

Now let's move on to the fourth quarter. We delivered strong fourth quarter top line growth. The total constant currency revenue grew 3.1% to $140.5 billion, with currency having a negative effect of approximately $1.7 billion. Walmart U.S. comp sales growth of 4.2% was a bit better than expected, as strong holiday results and an early release of government assistance benefited sales.

International grew net sales 2.7% in constant currency, led by strength at Walmex. And Sam's Club had solid comp sales growth of 5.3% excluding fuel and tobacco. Consolidated gross profit margin declined 21 basis points due primarily to the mix effect from eCommerce growth in India and the U.S. and price investments in certain markets. We had some benefit in the quarter from lapping last year's discrete items.

SG&A leverage and operating income benefited from lapping last year's discrete items, but was partially offset by dilution from Flipkart. Excluding these items, we would've leveraged expenses in the quarter and operating income would've increased slightly on a constant currency basis.

The adjusted tax rate was within our expectations for the year at 24.6%. As a reminder, the adjusted tax rate excludes the effect of the value change in our investment in JD.com, adjustments related to tax reform, and the change for the divestiture of a majority stake in Walmart Brazil. For the fourth quarter the adjusted tax rate was 22.8% and benefited EPS by about $0.04 per share, primarily due to the effect of numerous federal tax regulations issued late in Q4. Adjusted EPS increased 6% to $1.41 and GAAP EPS was $1.27.

Now let's discuss the quarterly results for each operating segment. Walmart U.S. continue to have great sales momentum. Comp sales excluding fuel grew 4.2% in the quarter and 6.8% on a two-year stack basis, the best result in nine years. We started the quarter with strong Thanksgiving and holiday shopping and finished the quarter with strong winter seasonal sales. Although base sales were strong, we did experience a benefit to comp sales of about 40 basis points from early SNAP funding. Clearly, we're operating in a healthy consumer environment, but our integrated omni-offering provided the convenience customers were looking for during the holiday season.

We had solid traffic and ticket, up 0.9% and 3.3%, respectively, while eCommerce sales grew 43% and contributed approximately 180 basis points to the segment comp. We're encouraged by the market share gains we saw in key categories according to Nielsen and The NPD Group. Our strong mid-single-digit comp growth in grocery led to the best two-year stack in nine years. Health and wellness delivered a low-single-digit comp sales gain, and general merchandise comp sales were up mid-single-digit percentage, with a strong holiday performance in toys and seasonal categories. Our inventory position is good as we enter the new year.

In Walmart U.S. eCommerce, we've made good progress on a number of initiatives, as Doug mentioned. We're still working to optimize our margin mix, so that we can achieve the long-term profit profile we want. The team is working with a great sense of urgency to increase sales in key areas like home and apparel, which will help margin rates, while simultaneously investing in new, innovative solutions.

As we outlined in October, we expect our losses in eCommerce to increase this coming year, reflecting investments in infrastructure, people, online grocery, and d Store No. 8 initiatives. While we've made good progress against our strategy in recent years, we still have great opportunity in front of us. We remain excited about the opportunity in grocery pickup and delivery, and plan to double the current number of stores that offer same-day grocery delivery in the coming year, while also adding grocery pickup to another 1,000 stores. The boundaries between physical and online retail continue to blur and we're in a great position to capitalize on that.

Walmart U.S. gross margin rate declined 27 basis points due primarily to the increasing mix of eCommerce growth, pricing strategy, and higher transportation expenses. Expense leverage was strong, reflecting strong sales, increased productivity, and overlap from last year's discrete items. The Walmart U.S. stores team has leveraged expenses for an impressive eight consecutive quarters even after raising the starting wage rate earlier this year. Operating income increased by more than 7% during the quarter. Overall, we're really pleased with the momentum we have in the Walmart U.S. business.

Moving to International, net sales in constant currency increased 2.7%, but declined 2.3% on a reported basis due to the negative currency effect of approximately $1.7 billion. The deconsolidation of Brazil was a sales headwind, offset by the inclusion of Flipkart sales for full quarter. Of our major markets, we saw positive comps from Walmex, Canada, and the UK. Results of Mexico were strong again, with comp sales growth of 4.6% in the quarter and we continue to grow faster than the market in key traffic driving categories, including food and staples, according to ANTAD.

In the UK, Asda's progress on improving the value proposition growing online grocers share and expanding private label penetration contributed to its seventh consecutive quarter of positive comps. In China, we saw slightly a negative comp in the quarter as the calendar shift of the Mid-Autumn Festival and a slower economic environment affected sales growth. Without the calendar shift, comp sales would have been positive.

As expected, International operating income declined 2.8% in constant currency and 9.9% on a reported basis. Factors affecting our fourth quarter comparison include the dilution from Flipkart, partially offset by the positive effect from lapping last year's discrete charges. Flipkart's results were in line with our expectations. Overall, we're pleased with the progress being made in Walmart International.

Sam's Club delivered solid comp sales growth of 3.3% excluding fuel, and 5.3% when excluding fuel and tobacco. The transfer of sales from closed clubs to existing clubs contributed approximately half of the comp growth, and eCommerce sales grew 21%. We're seeing improved membership signups and NPS scores, and in fact despite closing 10% of our clubs at the end of last year, overall membership counts are about flat year-over-year. Sam's operating income increased primarily due to lapping last year's discrete charges for club closures. Excluding these items, operating income would have been flat excluding fuel and up about 9% with fuel.

I'll close today with guidance for fiscal year 2020. As always, we have several assumptions in our guidance, including the economic conditions, currency rates, and the tax and regulatory landscape, and our largest and most important markets remain generally consistent. As always, we have not included any potential change in the value of our investment in JD.com. We're also continuing to monitor the ongoing tariff discussions. As we mentioned in October, we will actively manage pricing and margins as warranted with our customers and shareholders in mind.

Regarding Flipkart, with any change like this, there can be some disruption to the business, but we feel good about our ability to transition with minimal interruption. There'll be some additional costs to comply with the new regulations, but we don't currently believe there will be significant enough to impact to total company guidance for the year.

You'll recall we issued fiscal year 2020 guidance last October. While there has been some growing uncertainty in the overall macroeconomic and political environment, we're confident in our ability to operate our business and serve customers effectively in most any economic climate. We've finished the year with good momentum. So, today we're reiterating the previous guidance provided in October, which speaks to the consistency of our business.

I'll highlight a few of the key guidance metrics and you can find a complete listing in this morning's press release. I'll start with sales guidance. We expect to deliver total net sales growth of at least 3% on a constant currency basis in FY 2020, with the back half of the year a little stronger than the first half due to some timing and comparison, including the deconsolidation in Brazil and the addition of Flipkart. Keep in mind, on a reported basis, we've seen increased pressure from currency, as noted in our fourth quarter results. If the current spot rates were to continue into next year, there would be a currency headwind to reported sales of around $3 billion, with most of that impact in the first half of the year.

For Walmart U.S., we still expect comp sales growth of 2.5% to 3%, despite the more difficult comparisons. We expect the quarterly cadence of comp sales growth to be fairly consistent throughout the year, ranging from approximately 2.5% to 3.5% in any given quarter. Walmart U.S. eCommerce is expected to grow sales around 35% in FY 2020 and we expect the quarterly growth to range from around 30% to the low 40% range.

We still expect to leverage expenses by approximately 20 basis points in FY 2020. We'll continue to make progress on being more efficient lowering costs, especially in Walmart U.S. stores, where we expect leverage to be even higher than the 20 basis points due to continuing strong sales and improved productivity. On a consolidated basis, we expect to slightly lever in Q1, with leverage improving each quarter during the year. Timing of expenses can impact leverage quarter-to-quarter versus our expectations.

Turning to profitability, we continue to expect consolidated operating income dollars to decline by low single-digit percentage, primarily due to Flipkart being included for the full year versus a partial year in fiscal 2019. We would expect the operating income to increase excluding the Flipkart effects.

We expect EPS to decline by low-single-digit percentage, which assumes an effective tax rate of approximately 26.5% to 27.5%. Keep in mind that the increase in the rate relative to FY 2019's adjusted rate relates to the Flipkart losses having very little tax benefit in the near term, which we mentioned previously. Excluding the full-year EPS dilution expected from Flipkart, we would expect EPS to grow by a low-to-mid single-digit percentage.

As you would expect, the quarterly year-over-year change in operating income and EPS will be quite varied during the year, due primarily to the impact of Flipkart only being in our results in part of Q3 and all of Q4 last year. We currently expect operating income and EPS to decrease by around 10% in Q1, decrease by a low-to-mid single-digit percentage in Q2 and Q3, and increase in Q4 to achieve our full-year guidance. As always, the growth quarter-to-quarter and change due to timing and other factors. Our priorities for capital allocation remain unchanged. We'll focus first on investing in our business and growth initiatives. We also remain committed to our dividend, as evidenced by the increase we announced today, and we continue with our current share repurchase program.

Before I close, I want to share a change in the communication cadence with analysts and investors. Similar to the past, we will host a question-and-answer session in Northwest Arkansas in June in conjunction with our Annual Shareholders Meeting. However, instead of hosting an Investment Community Meeting in October, as we typically have, we plan to have an event in February 2020 in New York in conjunction with our Q4 earnings release. This meeting will be similar to the format we've typically had, where you'll hear updates on our performance, guidance, strategy, and interact with key leaders, but in a location that's closer to many of you. As always, we'll continue to assess the optimal approach to communicating with our investors and analysts.

Let me close by saying thank you for your support of our company. I'm as optimistic as I've ever been about what Walmart can become. It's a great company with a long history of transformation and we expect to win.

And with that, I'd be happy to take your questions. Thank you.

Q&A

Operator

Thank you. We'll now be conducting a question-and-answer session. Thank you and our first question is coming from the line of Simeon Gutman with Morgan Stanley.

Q - Simeon Ari Gutman {BIO 7528320 <GO>}

Hey, good morning, guys. My first question is on expense leverage. You mentioned the 20 basis points and I think you just clarified in your comments, Brett, it's total company. So can we dig a little bit more into what's driving it? And if we back into gross margin, then within the context of your overall guidance, it implies gross margins will be down. And so my question is, if gross margin pressure is, let's say, more acute than you expect, how much flexibility do you have on the expense line over the course of the year?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah, thanks, Simeon. We've talked a lot over the last few quarters about expense leverage. It comes from a number of different places. We've seen great expense leverage in the U.S. Certainly, good comp sales helps a lot with that. But the technology we've put in place and the training we've done over the past several years is really paying dividends in the stores with our associates and how we serve our customers. So, as you saw even in October, some of the technology that's coming, some things we keep doing with our stores, we expect the productivity in the U.S. stores will continue to be a big part of what we do.

When you look at really around the world, we're seeing good results and leverage around the world in different pockets. As you know, with leverage, it could be a lot of small things that add up, but we're doing some bigger things as well. I've talked recently about the work we're doing in shared services that we're viewing that as more of a real strength in the company. This past year, we hired a Chief Procurement Officer for the first time for goods not for resale, and so we're putting more effort toward using our scale to benefit our leverage. So I feel good about the numbers we've put out and I think there's going to be room for us. The timing of that's always challenging to figure out.

You're correct on gross margin, and that's the implication that we have. We're going to continue to invest in price for the customer, which we've done. The mix of the business will continue to change, which changes a bit the nature of our company. And we've always said a couple things. One is getting our expenses right allows us to do what we need to do from a gross margin perspective to remain competitive and be there for our customers. And so that's the main thing we want to do with expenses. And we have a lot of levers to pull as a company that we can make changes throughout the year. I hope that answered your question, Simeon.

Q - Simeon Ari Gutman {BIO 7528320 <GO>}

Yeah, yeah. So and my follow-up with regard to eCommerce and online, and I think Doug made a comment around profitability and maybe repeat customer purchases, and I think you did as well, Brett. So, look, it sounds like it's taking longer than you think to get to profitability. I think we know that already. But can you talk about what's been the biggest surprise? Is it you're making less on the consumables mix than you thought? You're just not seeing enough long tail yet? I think Doug insinuated, we should make progress on the repeat rates. I assume that means it's not as strong as you think. Is it costing you more to run these mega DCs? Any more clarity on what line of progress we need to see the most on to get to that profitability.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah, Simeon, this is Doug. I think the headline answer is it's mix and that mix has got to generate a customer experience that drives repeat business. So if you break it down into pieces, we've got this advantage of having the stores in fresh and perishable and the assortment in supercenters close to customers. We're trying to drive that advantage, and I believe we've got good traction there.

In parallel, we're trying to build an eCommerce business that in apparel, general merchandise. You saw recently a new home launch from us with the brand MoDRN, for example; trying to build an apparel, home, hardlines business that brings customers back and generates a positive contribution margin for the basket. And there are different components of that basket. There's the pick cost, the shipping cost, and then just the gross margin on the products. And the thing that's taking longer than what I would have guessed is to build that merchandise assortment, including the brands that we're trying to add to a place where we've got a repeatable healthy mix of business online. So we're pedaling fast trying to make that happen and disappointed it's taking as long as it is.

Operator

Thank you. The next question is from the line of Bob Drbul with Guggenheim Securities. Please proceed with your questions.

Q - Robert Drbul {BIO 3131258 <GO>}

Hey. Good morning, guys.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Hi, Bob.

Q - Robert Drbul {BIO 3131258 <GO>}

I guess the first question is on the eCommerce side, can you talk a little bit about the quarterly success and your confidence in the 35%, and how much of the toy category helped both in the fourth quarter, but when you think about the next year guidance on eCommerce?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah, Bob, this is Doug. We're confident in the 35% number for eCommerce and we'll drive that, as I just mentioned earlier, with the food and perishable business coming out of the supercenters and we'll also drive it with the fulfillment center assortment that we're working on. Toys was a help in the fourth quarter. There was an opportunity there and the team did a good job of seizing it in total across stores and online.

Q - Robert Drbul {BIO 3131258 <GO>}

Okay. And then can you spend a little bit of time – you've given us a lot on the Flipkart performance. But, I guess, can you talk about the top line of the Flipkart since the regulatory changes and sort of how you're thinking about the business in terms of the trends? You said in line with the plan in the fourth quarter, but when you think about where we are today heading into 2019.

A - C. Douglas McMillon {BIO 3063017 <GO>}

I can't comment on the future. The guidance for Flipkart's in the first quarter. I'll just say that the things that have happened have been disappointing in some ways, but they haven't shaken our confidence and excitement about what this is going to mean to the company long term. And this isn't a story about one quarter or even one year. We hope to have an effective, productive dialogue as it relates to future changes that happen. But in terms of how the business has behaved, it's in line with what we thought it would be.

Operator

Thank you. The next question is coming from the line of Peter Benedict with Baird. Please proceed with your questions.

Q - Peter S. Benedict {BIO 3350921 <GO>}

Oh, hey, guys. Good morning. First, Doug, at the tail end of your prepared remarks, you mentioned new revenue streams as part of the longer term opportunity for Walmart. So, can you expand on that thought a little bit and perhaps speak to how you envision these potentially playing into the longer term RIO equation for the company? That's my first question.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Sure. If I can take you back to the October Analyst Meeting, Peter, we put up a chart that we referred to as an ecosystem chart. And our thought process is that we've got this core merchandising capability that we continue to strengthen and we can transform in some ways in terms of how we work differently, how we use technology, and build on that with data and other components of our business to grow health and wellness, where we've got an opportunity to be more important in that space. And financial service is another area where we've historically done some things, but there appear to be more opportunities there for us, and there are some others that were represented on that chart that we're currently working on in a global fashion to create a business model by market that not only resonates with customers, but also delivers return for shareholders.

Q - Peter S. Benedict {BIO 3350921 <GO>}

Okay. Thanks for that. And then, Brett, just the U.S. average ticket up 3.3%, another great number there. Can you maybe unpack that a little bit, inflation, mix? And is there any tariff pass-through that we've seen or that we're going to see as we look out to 2019? Thank you.

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah, you bet. Thanks, Peter. Yeah, traffic and ticket – you probably heard me say this every quarter. Traffic and ticket quarter-to-quarter can go back and forth, and certainly we're focused on both, but more focused on the total. Happy with both. We look at traffic at the two and a half year – two-year stack, so we're continuing to see good traffic coming into our stores. This is going to be influenced some by the continuing shift of our business with online grocery.

With eCommerce, you get a different mix of basket in there. And category by category, Peter, you're seeing some categories that are deflating that we always have some of that; electronics will be one of those. We have had some tariffs and there are places in which that does get passed along and that does impact ticket. We're not seeing a great deal of inflation. I would call it fairly modest at this point. And when you look at what we're doing from a price perspective, I think our customers really are seeing much inflation because of what we're doing

Operator

Thank you. The next question comes from the line of Kelly Bania with BMO Capital Markets. Please proceed with your questions.

Q - Kelly Ann Bania {BIO 16685675 <GO>}

Hi. Thanks for taking the questions. Just going back to the operating expense leverage, you talked about some of the training and technology impact on that. But can you give us more color in terms of the rollout on some of the technologies that you highlighted at the Analyst Day, what we should expect this year and over the next couple of years?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah, this is Doug, Kelly. I think it's going to take us some time to sort that out and communicate specifically with some of the pieces of equipment that you saw. But it will happen. We're just going to take our time, roll it from store group to store group. I'm really pleased and excited with how our managers are responding to all these new tools. There is amount – in the stores there's a tremendous amount of enthusiasm for it. So that is a key part of our plan. We'll update you as things go on, but it'll take us some time to put all the pieces together that we shared with you and some others that we've got coming

A - Brett M. Biggs {BIO 17414705 <GO>}

And, Kelly, this is Brett. As we said in October, we do feel like that as we see technologies developed in the processes we're coming up with, we do see opportunities to leverage over the next period of time as well.

Q - Kelly Ann Bania {BIO 16685675 <GO>}

Great. And just a follow-up on the last comment about your customers not maybe seeing that much inflation. Just curious if that's really specific to grocery and what you're seeing from your vendors there in terms of price increases. It sounds like your customers are not really seeing that, but maybe you can just elaborate on what you're seeing and what categories you are seeing inflation or deflation.

A - C. Douglas McMillon {BIO 3063017 <GO>}

I don't think we should get too specific by category. I think I would just say that the combination of cost pressures that we're feeling with the price reductions that we're making has worked out in a way that the customers are not feeling very much impact.

A - Brett M. Biggs {BIO 17414705 <GO>}

And our merchants, it changes every year, but our merchants are always working through something that's inflating, something that's deflating. They're really good at managing mix in various very different situations.

Q - Kelly Ann Bania {BIO 16685675 <GO>}

Thank you.

Operator

The next question is from the line of Karen Short with Barclays. Please proceed with your questions.

Q - Karen Short {BIO 20587902 <GO>}

Hi. Thanks. Just looking at the U.S. in the fourth quarter, obviously, I mean it was a very impressive leverage number. And I guess what I'm asking is, when I look through to 2020, I guess I don't really see anything that changes the cadence on the gross margin decline. If anything, maybe it gets a little bit easier, because you lapped transport, and then it seems like you've kind of hit your stride on the expense leverage. So, is 4Q kind of something we should expect in terms of the composition going forward? Because those numbers are finally getting you to that tipping point, where you can see past the Flipkart dilution, I guess.

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah, I'll speak first specifically to the U.S., because I think that was the main question. We're seeing the productivity loop back in action in Walmart U.S., where you get the sales and it allows you to do what you want to do on prices, allows you to lower expenses. The productivity loop is alive and well in the U.S. The mix of our business continues to change as you look at eCommerce growing in the U.S., the acquisition of Flipkart, and so that does change when you look at total company.

But as for leverage, I mentioned from a total company perspective, we expect to slightly lever in Q1 and that just to get progressively better as we go through the year, and we certainly couldn't do that – or couldn't make that statement if we didn't feel pretty comfortable with what we're seeing in the U.S. Again, we've assumed this kind of sales growth to get that leverage, sales growth has helped a lot in getting that leverage. But that's how we see the year playing out.

Q - Karen Short {BIO 20587902 <GO>}

Okay, that's helpful. And my second question is just on eCommerce. I guess I was wondering if there was anything about the fourth quarter, I guess, that surprised you on eCommerce in terms of either losses – well, specifically losses. But also I was just wondering if you could give an update on number of SKUs, total number of SKUs, both 1P and then 3P. And then maybe just a little update on the mirroring of SKUs at your FCs, because it seems to me that that's also one of things that will help stem the losses, that is going a little slower than expected.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Karen, this is Doug. I think that's right. We're making good progress on mirroring and our total count is in the 75 million range now. It wasn't anything that I can think of that really surprised us in the fourth quarter as it relates to eCommerce. I would mention that you may remember a year ago, we had some fulfillment center challenges and the team did a great job of preparing for peak and executing it this year, and the customer experience was a lot better. So I was really pleased to see that.

Operator

Thank you. Our next question comes from the line of Robby Ohmes with Bank of America Merrill Lynch. Please proceed with your questions.

Q - Robert Ohmes {BIO 1541955 <GO>}

Thanks. It's just another follow-up on eCommerce. So, you guys called out doubling delivery again this year. Can you maybe, Doug, remind us how you guys are executing that, who the key partners are, and maybe how the math is working on that? How do you make that leverageable? Is there any scale opportunity there?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Sure. Hi, Robby. We're using a combination of last-mile solutions. We're using crowd-sourced companies and we have our own platform, it's called Spark, that we're experimenting with, and we're still playing around with some associate deliveries in a small way trying to figure that out. But it's the crowd-sourced delivery platforms that are really helping us achieve scale. Generally speaking, the delivery costs cover the cost. We're right now operating with something of a breakeven mentality as it relates to the delivery costs. So customers are bearing that, but they really do like the convenience and I'm excited about figuring all this out. And the combination of great stores that can increasingly function as productive fulfillment centers, which by the way is helping keep pressure on in-stocks, which is what we saw from the UK years ago really lack that healthy pressure, together with pickup, which continues to have a high NPS score and people love it.

Now, with delivery and future enhancements in the future as it relates to the service end of that caused me to be really excited. It looks to me like there's a long runway here, where our supercenters can double its fulfillment centers and stores, and also generate a great store experience. So it looks promising.

Q - Robert Ohmes {BIO 1541955 <GO>}

That sounds great. And just a follow-up question for you. I think in the presentation on China, you call that intensifying competition, and I think also just mentioned slower growth overall in China. Can you just maybe fill us in on what you guys are seeing in China with the consumer overall over there?

A - C. Douglas McMillon {BIO 3063017 <GO>}

If you just read the headlines, you might imagine things are pretty tough, but that's not really what we're seeing. If you look at our comp performance, Brett talked about a calendar change, but that aside, things have held up pretty well and the Sam's Clubs continue to be really strong. I'm excited about the fact we've got more of those in the pipeline and the comp performance in Sam's is great. The supercenters have been performing better and they look better. I think operationally we've improved. And then we've been playing around with some supermarkets and may find an opportunity there, which can play a key role in last-mile delivery.

This relationship that we mentioned on last-mile there is resulting an incredible customer experiences in terms of both the value for delivery, which is still I think around a U.S. dollar, and the speed with which you can get delivery, given the density of market, is like incredible. So that feels okay. And I think if you look at the overall relationship, considering all the things that are happening in China, we're in pretty good shape. So I'm still – I'm optimistic and recognize the tremendous opportunity that the market presents (44:12), and we're constantly trying to think through our position in that market and how we might improve it.

Operator

Thank you. The next question comes from the line of Seth Sigman with Credit Suisse. Please proceed with your question.

Q - Seth I. Sigman {BIO 17751557 <GO>}

Thanks very much. Good morning, guys. I wanted to follow-up on the online grocery conversation. So I think you said that you're going to add another 1,000 stores this year. I'm curious more about how the ramp curve in the new stores may be changing as you see growth in consumer interest and awareness of the offering?

And then the second piece of the question on the topic of mix, I think when you purchase something through the online grocery app, you can actually add things outside of just grocery. I'm just curious, are you seeing any major change in mix there in the context of maybe improving profitability over time? Thanks.

A - C. Douglas McMillon {BIO 3063017 <GO>}

I think two dimensions there. One is the customer enthusiasm for those kinds of offers, and it's loud and clear to us that customers, no surprise, are really busy and that if we can find a way to make things more convenient for them with pickup and delivery, they're all over it. So I think the ramp there in terms of how comp stores will behave in addition to the rollout that we're doing for additional stores is going to continue to be strong. We have been adding assortment over time. Some of the happiest customers that I have come across are customers that can place their back-to-school order and a grocery order together, and go through pickup and knock out that list of things that you need for your kids as they go back to school. And that includes a lot of items that are not food items.

And then over time we just keep adding as the stores learn how to pick categories that are different in nature than food. It's a different situation to go and pick light bulbs or to go pick some of these categories that may not have as much shelf capacity as we have in food. So we have to learn how to adjust our modulars so that you can expand the categories in the items. And I do think that will help mix over time, and we may have seen that already. I haven't been tracking that part of it that closely, but it makes sense that that basket would change shape and affordability will be better.

Q - Seth I. Sigman {BIO 17751557 <GO>}

Okay. Thanks for that. And then just one follow-up question on the inventory growth, up 0.8% on a comp basis in the U.S., I think the first time in recent memory. The strength of sale is, obviously, very clear, but anything else to highlight there that may be driving that?

A - C. Douglas McMillon {BIO 3063017 <GO>}

At first I would say the job that Greg and the team have done on inventory over the last few years has been phenomenal. I mean, being a merchant for so much of my career, I have so much respect for the way that they have driven in-stock levels, reduced inventory, reduced deleted inventory for quarter-after-quarter now. What happened in this case is that we saw the SNAP shift into the end of January. We built food inventories at the end of the quarter to make sure we were maximizing that opportunity. There's a little bit of pull forward of inventory in anticipation of what tariffs could mean in a worst case scenario, although we certainly hope and expect that that won't happen. So I'm not worried about the inventory level. It's high quality. There is a bit timing difference there, and overall that picture still looks really good.

Operator

The next question is coming from the line of Michael Lasser with UBS. Please proceed with your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. If we look at the midpoint of your U.S. comp guiding 2.5% to 3% for 2020, it's about 100 basis points below what you achieved in 2019. Should we take that to mean that's what you think the healthy spending environment, driven, in part, by all the tax reform, contributed to your sales in the year ago period? Is that about 100 basis points?

A - C. Douglas McMillon {BIO 3063017 <GO>}

I think that's exactly right. I think we're just recognizing that this last year had some tailwinds in it that this year we won't have.

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah. And, obviously, there are some more challenging comparisons because of what we did this year. But I think what Doug is saying on healthy economic environment, and you put a number of things together, I think this is the range that we feel good about going into the year, but still obviously a very, very healthy growth.

Q - Michael Lasser {BIO 7266130 <GO>}

And my follow-up question's on Flipkart. How much is the regulatory environment going to influence your investment posture in that market? So, we see no change and competition heats up, are you going to look to maybe moderate your investment in that market over time?

A - C. Douglas McMillon {BIO 3063017 <GO>}

So I think we'll see how the year goes and respond appropriately. But I would remind everybody that Flipkart is already an ecosystem. There's the PhonePe payment platform. There's last-mile delivery. There are the Myntra and Jabong businesses in apparel. So it's not just one thing, and it's not just eCommerce business in the traditional sense. There's a lot of dimension to it. So there, just like here, we've got a lot of different variables we can play with to manage the total, and I think we've forecasted it appropriately and we'll respond as the year goes on.

A - Brett M. Biggs {BIO 17414705 <GO>}

Michael, when you look at it, I mean, all the reasons we cited for going into India and acquiring Flipkart, when you look at the continued eCommerce growth in India, the size of the market, the growing middle class, all those things are still as true today as they were six months ago. So the reasons we're excited about the market are still there.

Operator

Thank you. The next question comes from the line of Oliver Chen with Cowen & Company. Please proceed with your questions.

Q - Oliver Chen {BIO 15320650 <GO>}

Hi. Thank you. Good morning. A lot of our data is showing really great adoption of curbside grocery pickup, as well as satisfaction here as well. What are your thoughts on how incrementality is unfolding? Also, as this continues to be a very popular and widespread service, what's the future in terms of packing and picking and labor as you balance just making sure your in-store experience is very good for those who aren't using curbside, and also leveraging what you can with automation and robotics to optimize the total experience?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Good questions, Oliver. I think the mix of new customers in online grocery is positive and encouraging to us. It's not just existing customers using the service, so that's an exciting development. And as it relates to productivity, we're continuing to learn how to pick more efficiently using the apps and the tools that you've seen in the stores, plus we've got a few experiments going on with more automation to try and solve for future higher volumes. You can get to a point, and we do cap in some store locations, a place where we have too many pickers in the store and they get in the way of our customers shopping the side counters. So we've got to manage that effectively. And we had a Salem project Alert – I forget what we call it – Alphabot (51:21) maybe...

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah.

A - C. Douglas McMillon {BIO 3063017 <GO>}

...announcement that we made last year that's one to keep an eye on. But we're actively sorting out how to increase our in-stocks, increase productivity, and have the customer experience continue to improve from an NPS point of view. That will be an ongoing stream of work.

A - Brett M. Biggs {BIO 17414705 <GO>}

And we're learning from the stores that were early in the process. As they get larger and larger, we're able to take those learnings from those stores that have been in the system a little longer to stores that are just coming online.

A - C. Douglas McMillon {BIO 3063017 <GO>}

(51:50).

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah.

Q - Oliver Chen {BIO 15320650 <GO>}

Well, Brett, on the topic of curbside, how are you thinking about ROIC and payback? And as you make judgments, you're rapidly rolling this out and people like it. But I'm curious about your thoughts on the multi-year and the investment versus the long-term share gains as well as customer reception.

A - Brett M. Biggs {BIO 17414705 <GO>}

I do think about ROI a lot. You're correct, Oliver.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah, I'll vouch for that.

A - Brett M. Biggs {BIO 17414705 <GO>}

When we're together as a team, I'm talking about Doug's team, we spend, as you can imagine, most of our time thinking through the prioritization of the various things that are going on inside the company. And as we go through those discussions, we always have the P&L and the balance sheet and the ROI in front of us as part of those discussions, and it's our job as the management team to make these things work together over time.

The customer acceptance we're seeing with online grocery, in particular, is one where you look at it and say, we're going to lean into this. And there may be things along the line that we delay this, or we stop something else, but we are going to lean into things like this when we see them working for the customer. And as a team, we will ensure that it works out for shareholders over the mid to long term.

Operator

Thank you. Next question comes from the line of Scott Mushkin with Wolfe Research. Please proceed with your questions.

Q - Scott A. Mushkin {BIO 7138867 <GO>}

Hey, guys. Thanks for taking my questions. So I have one kind of just, I guess, shopkeeping item with the discrete items in the fourth quarter and trying to understand comparability. I think it's a 47 point leverage you had in the U.S. business. Is that including or excluding the discrete items? And if it's inclusive, how many basis points were the discrete items?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah, Scott, we had mentioned and, of course, you just heard it for the first time, we'd mentioned in the script that that leverage is higher than it would normally be because of those discrete items last year. If you back those out, we still levered slightly in the quarter and for the year. But clearly, fourth quarter was higher than you would normally expect because of those discrete items.

Q - Scott A. Mushkin {BIO 7138867 <GO>}

So there was just a slight – and would U.S. EBIT grow without the discrete items?

A - Brett M. Biggs {BIO 17414705 <GO>}

I'm sorry. What did you say, Scott? I missed the question.

Q - Scott A. Mushkin {BIO 7138867 <GO>}

Would U.S. EBIT have grown without the discrete items?

A - Brett M. Biggs {BIO 17414705 <GO>}

It would have been roughly flat. Yeah.

Q - Scott A. Mushkin {BIO 7138867 <GO>}

Roughly flat. Okay, great. Then my second question is regarding just kind of the strategy in the U.S. I mean, it seems if I back away a little bit, and you guys talked about omni-channel pressuring probably a little bit more, it seems like the International business is pressuring a little bit more. If I kind of add those things up, it doesn't seem like there is a lot of wiggle room to invest a lot in price in the U.S. Am I missing that or is that how you would frame it as well?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Scott, I think we've got enough room. We, as you know, have been on a multi-year plan to reduce pricing in the U.S. and we're just continuing that. There are some price investments in Sam's and in some International markets, but I'm comfortable when you look at our forecast that we've got an appropriately aggressive price investment remaining as we finish off what we started years ago.

Operator

Thank you. The next question is from the line of Paul Trussell with Deutsche Bank. Please proceed with your questions.

Q - Paul Trussell {BIO 20732173 <GO>}

Good morning and a good quarter. Just wanted to maybe touch on guidance. Certainly commend your reiterating fiscal 2020, just given the moving parts in the business. But maybe just a little bit more detail around the cadence of the guide, specifically I think in 1Q you mentioned operating income to be down 10%. Just to what extent is that Flipkart versus currency? Or how should we think about the top line headwinds from SNAP or tax refunds? And just the ongoing kind of cadence and improvement you expect to see over the balance of the year, where does that come from?

A - Brett M. Biggs {BIO 17414705 <GO>}

Yeah. Paul, this is Brett. So if you look at the cadence, primarily what you're seeing in Q1 is going to be related to Flipkart. If you look at the guidance we'd have given last year and just look at how that would play out over the quarter, you can get pretty quickly to that number. There's always going to be timing of other parts of the business that go from one quarter to another based on how expenses are flowing, but that's the biggest part of Q1 and Q2 as well, because it did not come in our results until partway through Q3. There is always – we can have things move around between quarters, $50 million here, $60 million there, and it can make a difference in how that number looks from a profitability standpoint, but Flipkart is the biggest part of that next year.

Q - Paul Trussell {BIO 20732173 <GO>}

Got it. And then just as we look towards fiscal 2020, just your outlook on transportation expenses and the headwind there and what you're seeing also on the wage front?

A - C. Douglas McMillon {BIO 3063017 <GO>}

On the wage side, Paul, we've just been moving up market-by-market. Our average now is about $17.50 for an hourly associate in the U.S. And I'm comfortable that we've got the appropriate wage investments to get the talent we need baked into the plan. Transportation costs, I'm not really close to what's happening right now. I would expect, based on what's happened with drivers, we're going to be in better shape from a transportation point of view as we go through the year, and it is helpful that gas prices are in the range that they're in and hope that that continues to be the case. I think that's one of the things that benefited this last year. So, glad to see them where they are.

Operator

Thank you. Your next question is from the line of Edward Kelly with Wells Fargo. Please proceed with your questions.

Q - Edward J. Kelly {BIO 21274619 <GO>}

Yeah, hi. Good morning. I just wanted to ask a follow-up question actually on price investment. So there's been some early signs, I guess, that food inflation beginning to perk up a little bit. And I just was curious as to what your thoughts are on allowing inflation to flow through if it were to continue to strengthen? I guess, as you think about that, holding the line would require potential I guess incremental investment above what's planned. Is that something you'd be willing to do? Just help us understand how you think about the dynamic of food price inflation versus price investment and what's budgeted for the year?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah. Before I mention, I just want to clarify what I mentioned earlier. $17.50 is actually $17.55 is the average hourly associate number with wages and benefits. As it relates to pricing, I think as I mentioned earlier, we've got an appropriately aggressive plan baked in and it would depend on what happened with competition and the severity of the price increases. I think we would manage margins as we bring all these variables together. I don't anticipate having a lot more inflation on the food side. And on the non-food side, we're continuing to experience deflation for that part of the basket, kind of works out.

Q - Edward J. Kelly {BIO 21274619 <GO>}

Okay. And then just one follow-up, Doug, on online grocery pickup and delivery. How are you thinking about the end goal here? Is it one to two-hour delivery for all customers? How do you think about the cost to get where you want to go and how it impacts the timeframe around eventually improving eCommerce losses?

A - C. Douglas McMillon {BIO 3063017 <GO>}

I think we'll end up in a position where the customer can pick, depending on the occasion, how they want to shop. There'll be families that come into stores once a week or twice a month or whatever, and they'll also use pickup, they'll also use delivery, and we'll have the ability to serve them in all those ways. There's an interesting opportunity, if you could get to a point where customers pick their delivery window in the home or to the door unattended, you can decouple the speed of delivery in a way that helps us manage costs. So as the volume goes up and density improves, we'll try to figure out how to drive a basket business that looks more like a dense route than a 1 hour or 30 minute race to deliver to somebody's house.

That may be different for restaurant delivery than it is for grocery delivery. It seems like those use cases are different enough. So we've got some tests going on and real-time learning here to try and do it in a way that customers want it to be done and create that optionality for them. And it's kind of one more mix opportunity for us. We grew up managing merchandise mix and still do, and now we're managing a service mix. And the good news is that once customers are in your ecosystem, they use you in some way. As I mentioned earlier in the prepared remarks, you get the opportunity to expand on that relationship, and that's what we're trying to do.

A - Brett M. Biggs {BIO 17414705 <GO>}

Scott, I want to – this is Brett. I want to come back and clarify something. I said that U.S. operating income ex one items was flat. I've misspoken that. It was up a little bit in the fourth quarter.

Operator

Thank you. The next question is from the line of Edward Yruma with KeyBanc. Please proceed with your questions.

Q - Edward Yruma {BIO 4940857 <GO>}

Hey. Good morning. Thanks for taking my question. I guess two quick ones. First, on macro, obviously, less tailwinds this year, but are you starting to see any changes in consumer behavior that would indicate that we're starting to level off or seeing some deterioration? And, I guess, as a follow-up, you're running a dual prong (01:02:04) strategy with Jet. I guess how would you score your kind of Jet business and kind of serving those urban millennials? Thank you.

A - Brett M. Biggs {BIO 17414705 <GO>}

Hey, Edward. This is Brett. I'll start off. The consumer, I think, still feels pretty good to us. You see all the numbers that we see. Wages are still pretty good; unemployment rates low; gas prices are down year-on-year. So, there's a number of things, I think, are still working in favor of the consumer. Like you mentioned, we're watching it, as we always do we're monitoring it in making sure that we're in the right place with the customer. I think no matter the environment, we tend to do pretty well and are able to react and be there for those customers, but we're monitoring it as we always do.

A - C. Douglas McMillon {BIO 3063017 <GO>}

The first quarter is always a challenge, because you've got an Easter change, there's weather that's a little more impactful in its volatility, we've got the SNAP movement into the first quarter, the tax rebates come in different windows of time, sometimes they're concentrated in a few days, sometime they're spread out over a week. So it makes it exciting to manage Q1, but underneath all that aggregate, what Brett said, they are in pretty good shape.

On Jet, I'm really pleased with the role that it's playing attracting new brands, and our focus, as we've mentioned before, is on urban market. So it's an opportunity to learn and to try new items and different items in some cases than we have in Walmart.com. So that's the role it's playing.

Operator

Thank you. The next question is from the line of Charles Grom with Gordon Haskett. Please proceed with your question.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, thanks. Good morning and great quarter here. Just one near-term question, Brett, do you guys expect that 40 basis point SNAP benefit to reverse in the first quarter? And then, a long-term question just with regards to digital, when you think about 2019 losses being greater than 2018, would you expect the 2019 losses to be the peak based on what you know now? And as a follow-up to that, when you think about mix being issue, when you think about correcting that, you guys were pretty active a couple of years ago acquiring more of the digitally native brands. Do you feel like you need to do more of that to sort of fix that issue?

A - Brett M. Biggs {BIO 17414705 <GO>}

Chuck, there's a lot in that question. I'll take the first two, and then I'll hand off to Doug. On the SNAP benefits, I mean, we're clear that that – we believe that did pull forward some into the fourth quarter. Again, with all the things that happened in the first quarter, I think we did pull that forward, but there's other things that could potentially make up for that. But that's why we've given the quarterly guidance, any quarter could be kind of between 2.5% to 3.5% for the year. On the eCommerce loss guidance, where we've said that we expect losses to be a little more, in this next year we're not going to give guidance past that, which I think probably won't surprise you. Doug, you want to talk about the...?

A - C. Douglas McMillon {BIO 3063017 <GO>}

Yeah. Preserving flexibility there I think is important. We've never led a digital transformation at this scale before, so we're figuring this out as we go. But if there's an opportunity to be more aggressive, given the total balance of the business, we would be thinking about that. Adding digital brands, we're after assortment, we're after a repetitive customer relationship, and we're looking constantly at various acquisitions. And I think what you've seen from us in the past will continue to some extent. It's impossible to predict the pace of it or the number. So we'll just have to see at the end of year how it all worked out.

A - Daniel Binder {BIO 1749900 <GO>}

Okay. That will conclude our Q&A session and our call today. We thank you for your time and interest in Walmart.

A - C. Douglas McMillon {BIO 3063017 <GO>}

Thanks, everyone.

A - Brett M. Biggs {BIO 17414705 <GO>}

Thank you.

Operator

Thank you. Today's conference has concluded. You may disconnect your lines at this time. Thank you for your participation.
