Q3 2019 Earnings Call

Company Participants

- Dan Binder, Vice President, Investor Relations
- Kary Brunner, Director of Investor Relations
- Unidentified Speaker

Other Participants

- Ben Bienvenu, Analyst
- Bob Drbul, Analyst
- Budd Bugatch, Analyst
- Charles Grom, Analyst
- Christopher Horvers, Analyst
- Christopher Mandeville, Analyst
- Edward Kelly, Analyst
- Edward Yruma, Analyst
- Gregory Melich, Analyst
- Joe Feldman, Analyst
- Karen Short, Analyst
- Kate McShane, Analyst
- Kelly Bania, Analyst
- Mark Astrachan, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Trussell, Analyst
- Peter Benedict, Analyst
- Robert Ohmes, Analyst
- Rupesh Parikh, Analyst
- Scot Ciccarelli, Analyst
- Scott Mushkin, Analyst
- Seth Sigman, Analyst
- Simeon Gutman, Analyst

Presentation

Operator

Greetings and welcome to Walmart's Fiscal Year 2019 Third Quarter Earnings Release. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Dan Binder, Vice President of Investor Relations. Please go ahead, Mr. Binder.

Dan Binder {BIO 1749900 <GO>}

Good morning, and welcome to Walmart's investor relations call to discuss third quarter earnings. This is Dan Binder, and I'm joined today by Kary Brunner, James Mann, Michael Brigance, and Shirish Gupta [ph] from our IR team. Hopefully, you've had some time to review our press release this morning along with our other Q3 earnings documents. I'll hit on some key points and then we'll open it up to Q&A.

As a reminder, our Q3 earnings press release, management commentary, and accompanying slide presentations are available on the Investor page of our corporate website stock.walmart.com. We may make forward-looking statements during this call. Please review the Q3 earnings presentation for a cautionary statement regarding forward-looking statements.

In terms of key takeaways, we had a good quarter with strength in many areas of the business. On a constant currency basis, net revenue was up 2.4% or $2.9 billion year-over-year and exceeded plan.

On a reported basis, this was just under $125 billion in revenue and currency negatively affected the top line by about $1.2 billion and operating profit by nearly $60 million. Adjusted EPS was $1.08 per share and that was about an 8% increase over last year. From a GAAP perspective, we posted $0.58.

Now let me give you a little bit of color on sales. We continue to see strong momentum in the Walmart U.S. business with both comp transactions and comp ticket growth. As you saw, Q3 comps were, in the US, up 3.4%, and on a two-year stack basis, were up 6.1%. It has been well over 10 years since we have seen back-to-back orders with two-year stack comps above 6%. So we're pleased with the momentum in the business.

At the time of our last call, we were about halfway through the back-to-school season, and I told you that we were seeing strength in that business. I'm pleased to say that the season wrapped up with solid results and then we ended the quarter with strong sales of fall seasonal goods, including Halloween. While we don't breakout grocery comp specifically, I will tell you that it was the best two-year stack comp in nearly nine years. I just wanted to point out that the hurricanes last year obviously provided us with some tough compares in that category and we were pleased with the momentum despite that tough comparison and particularly with fresh.

As you also saw in today's release, US eCommerce sales grew 43%, keeping us on track to achieve about 40% growth for the year. We also continue to see good top line results for International and Sam's Club. Nine of the 10 international markets reported positive comps, led by Mexico. And Sam's Club, we saw reported strong comp store sales growth of 3.2% excluding fuel and 5.7% excluding fuel and tobacco. Sam's Club eCommerce sales grew 32% and we continue to be pleased with membership trends.

Lastly, as detailed in our release, we did raise our Walmart U.S. comp store sales guidance ex-fuel from around 3% to at least 3%. We're now expecting full year adjusted EPS of $4.75 to $4.85, which was raised from our previous guidance of $4.65 to $4.80.

Just in terms of a reminder, I'd like to remind you that we will report fourth quarter earnings on Tuesday, February 19th, 2019. In addition, we have posted our fiscal year 2020 earnings releases -- release dates on our IR website.

So with that, I'm happy to open up the call to your questions. Operator, if we could get started. Thanks.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Peter Benedict with Robert. W. Baird. Please proceed with your questions.

Q - Peter Benedict {BIO 3350921 <GO>}

Hi, guys. So maybe two questions. One, Sam's at 27% private brand penetration. I think that's -- that was like 23% or so a year ago. So I'm just curious what's driving -- which categories are driving the increased private brand penetration there and how does that penetration compare at Walmart U.S. and maybe the trend that you're seeing at Walmart U.S? That's my first question.

A - Dan Binder {BIO 1749900 <GO>}

Yeah, sure. So private brand has in fact moving up. As you know, we consolidated down to one private brand at Sam's Club, and we've really seen strength in many areas of the Club. We don't break it out specifically, but it was pretty broad based. And then in terms of Walmart U.S., we don't break out private brands specifically, but it has been trending up and that is not -- I think the takeaway here is it's not because we're really pushing it as much as the customer is really accepting and responding to the higher quality, the price points, better packaging et cetera. So a nice trend there as well.

Q - Peter Benedict {BIO 3350921 <GO>}

Okay. Thanks, Dan. And then my follow-up would be, is there any additional color you can provide on Flipkart and how it impacted the various line items in the P&L, whether it'd be revenue, is there a -- is it safe to assume that Flipkart was dilutive to gross margin? Just any kind of color you can provide on Flipkart would be great. Thanks.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. Unfortunately we're not breaking out a lot of detail. I think you heard from Brett the investment community meeting, we're going to try and give you color over time on how it's doing, high level, but for competitive reasons, we're not providing a lot of disclosure on that piece of the business, but it was dilutive, as you can see in our operating margin, and it's about all I can say on it at this point. We did have a Great Billion Dollar Day with strength in mobile, smartphones, record turnouts. So we are pleased with that event.

Q - Peter Benedict {BIO 3350921 <GO>}

All right. Got you. Thanks, Dan.

Operator

Our next question comes from the line of Karen Short with Barclays. Please proceed with your questions.

Q - Karen Short {BIO 20587902 <GO>}

Hey, thanks. So just want to go to earnings guidance implied for the fourth quarter. So there is a lot of one-times that were in last year's third quarter and a lot of one-times that were in last year's fourth quarter. So I'm trying to back all of those out. But when I look at the implied EPS guidance for 4Q and try to back into what that would mean for EBIT, I get EBIT in 4Q down quite a bit more than it was in 3Q, and this again is on an adjusted apples-to-apples basis. So I'm kind of backing into like 10% plus, 15% down year-over-year EBIT. Is that -- am I kind of ballparking that? And then I guess, if that's the case, why would it have -- why would it actually get worse in 4Q versus 3Q?

A - Dan Binder {BIO 1749900 <GO>}

That number sounds high. I'm happy to get into the details of it after the call, but we did have Flipkart in the current quarter for only 44 days just because it's -- like many of the other countries with the exception of Canada, it is a one-month lag. So you have 44 days of Flipkart this quarter. The next quarter, obviously, have a full quarter of Flipkart. So that would really be the only call-out that I would make, but again, I'm happy to get into the line items post call.

Q - Karen Short {BIO 20587902 <GO>}

Okay. And then so my second question just on Flipkart. So we're looking at what the gross margin deterioration was in international. I mean, you call out -- obviously you call out the fact that the deterioration was primarily a function of having Flipkart in the quarter, but as we look to 4Q, should we kind of take the run rate that you had in 3Q and kind of adjust it for it only being a 44-day impact in 3Q as we think about the 4Q gross margins?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So we gave you some guidance at the time of the deal. We updated that guidance at the investment community meeting, indicating we expected about $0.25 of dilution from Flipkart. While we didn't specifically break it out here in Q3, that guidance has not changed. So you should expect sequentially you're going to have more dilution in the International profit number on a year-over-year basis.

Q - Karen Short {BIO 20587902 <GO>}

Okay. Thanks.

Operator

The next question is from the line of Simeon Gutman with Morgan Stanley. Please proceed with your questions.

Q - Simeon Gutman {BIO 7528320 <GO>}

Good morning, Dan and team. My first question on the US EBIT. Last year, I think it was on the commentary, there was $150 million call-out of a negative impact to EBIT from hurricanes. And so my first question is, what's the right way to look at the comparison because, if we add back EBIT to last year's US, it would show EBIT for this year down a little with margin down. If we take it out, it paints a slightly different picture, shows it up and margin up. So I don't know how -- if there is a nuance to the way we should be looking at it.

A - Dan Binder {BIO 1749900 <GO>}

So you're correct. We did break out some color last year on the hurricanes. We obviously got hit again with some hurricanes this year. So there was expense related to that for all kinds of things, including equipment rental and so forth, but we didn't quantify it this year. So it's really kind of hard for me to give you a perfect comparison, but just -- no, there was definitely some noise in the number this year as well.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. And then on -- a sales question. So grocery, you don't give us the exact comp, but you told us that the two-year stack was the best, but we do know it moderated from, I think, mid-single to low single and your eCom business did accelerate, it's up to 40 -- growth of 43%. Bear with me on this inference, but is it fair to say that the non-grocery part of your eCom business is accelerating. Is that a reasonable conclusion?

A - Dan Binder {BIO 1749900 <GO>}

So we don't break that out specifically, but I -- the color I would add is that the mid-single that you saw in our documents last quarter versus the low single that you see in the documents today for grocery, there was some rounding. So I would just characterize this quarter as strong -- at the stronger end of low single, and on a two-year stack, we called that out, in particular, because we wanted to highlight obviously that we had this hurricane comparison a year ago, but make sure you all understood that that business continues to have really good momentum, and we've seen good share gains there.

Q - Simeon Gutman {BIO 7528320 <GO>}

Got it. Okay. Thanks, Dan.

Operator

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

Q - Bob Drbul {BIO 3131258 <GO>}

Good morning. I was wondering if you could just address a little bit. I think on the ticket growth, did inflation play a factor there? And I was just wondering maybe you can give us a little bit more color on the ticket growth. And then the second question that I have, there is some discussion on taking market share in key categories. Just wondering if you might be able to line up for us exactly what categories you feel like you're taking the most share currently. Thanks.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So to answer your question on the ticket, that was not a factor of inflation. We have seen some cost input increases, but similar to last quarter, that's largely been offset by price investment, which, as you can see in our gross margin, continues to be a factor, in fact the leading factor for gross margin pressure. The reason for ticket improvement, I think, is a function of a few things. One, online grocery continues to grow rapidly and that is a significantly higher ticket than the average. Second, eCommerce also continues to grow rapidly and that is a higher ticket. And then even if you look within the store, fresh is higher ticket. That's been a leading comp category within grocery, and then you saw some strength in areas like apparel, toys, and automotive. So good general merchandise mix as well. So those are really -- that would really sort of sum it up. Do you have a follow-up?

Q - Bob Drbul {BIO 3131258 <GO>}

Yeah. I mean, the follow-up is just, so -- and when you look at sort of the market share in key categories, I'd be curious to see your take on that. You're gaining some share, but maybe if you can just comment on the toy category and sort of how you feel like you're positioned over the next 60 days.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So for competitive reasons, we wouldn't get too detailed in the market share data, but when we look at Nielsen and the NPD Group, it is very clear that we are gaining share in multiple categories; highlighted grocery a minute ago, that's been a trend. You can see where others are reporting grocery comps versus ours in recent quarters, but it's pretty broad-based.

Q - Bob Drbul {BIO 3131258 <GO>}

Thanks, Dan.

A - Dan Binder {BIO 1749900 <GO>}

You can see that's always had a strong quarter, Bob.

Q - Bob Drbul {BIO 3131258 <GO>}

Great.

Operator

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

Q - Paul Trussell {BIO 20732173 <GO>}

Good morning. Wanted to just maybe get a better handle around the adjusted guidance. So the at least 3% growth from a US comp standpoint could imply just the two comp at the low end. Is that how we should think about the framework of what the EPS guidance is based on or any other kind of puts and takes you can help us out with on the adjusted guidance.

A - Dan Binder {BIO 1749900 <GO>}

Yeah, sure. So there is nuance there obviously and that was -- we wanted to send a message that we're feeling good about the business, and to your point, if you were at three, you would probably be at about a two comp in Q4. I just -- hopefully you took away from my comments earlier that we started the quarter strong. We ended at -- we ended it strong. There is momentum in the business. So there is a lot of sales still in front of us, but we feel good about the business right now. So we do want to make a slight change to the sales guidance and you saw we took the earnings up as well. So --

Q - Paul Trussell {BIO 20732173 <GO>}

Got it, got it. And on gross margins, some puts and takes there, you all were lapping the hurricane impact, but you did kind of speak to ongoing kind of pricing investments; all planned it sounds like, but also ongoing increases in transportation costs. Just any additional color you can maybe help us with on what's taking place there.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So the -- yeah, I had a chance to really look at the walk year-over-year and the three things that I called out explain all of it. I mean, it's really very straightforward. You get heavy price investment. As I -- I think I probably described to you in the past, that's kind of like religion around here. It's very consistent, it's very persistent, it's working, customer's responding, that productivity loop is working for us, transportation costs, no big surprises. That's been pressured throughout the year, continues to be, and then that mix of eCommerce would be the last piece.

Q - Paul Trussell {BIO 20732173 <GO>}

Got it. Thanks. Best of luck.

Operator

Our next question is from the line of Greg Melich with MoffettNathanson. Please proceed with your questions.

Q - Gregory Melich

Hi, thanks. I'll just start with maybe eCommerce. The 43% growth, going back to that, how much of a driver was the grocery pickup rollout? Was that a majority of the eCom growth?

A - Dan Binder {BIO 1749900 <GO>}

Consistent with what we've said in the last quarter or so, it's been a significant contributor, but we have not broken that out specifically, but it is clearly contributing to that number in a big way.

Q - Gregory Melich

Okay. So that means, it's the biggest thing, but it doesn't have to be a majority of it. Is that -- I just want to make sure I am translating the --

A - Dan Binder {BIO 1749900 <GO>}

No, I wouldn't characterize it that way. It's a significant contributor, but it is -- I wouldn't start to read into majority-minority.

Q - Gregory Melich

Okay. And then just on the tariffs, the -- I think Home Depot has sort of outlined, and there's different ways you can talk about it, but so far 1% of their US purchases at the current rates was what's on the list. Are you able to give us something similar? (inaudible) we go to 3.5%, if we went to 25%. I know in the past, you said a majority of your US purchases are done domestically. So just anything else, Dan, that you could give us on that front?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So two-thirds of our US purchases are made in the USA. We do have -- and part of that's just because we have such a big food and consumable business that's like mid-50%s type mix, and then the rest -- the other third is coming from other countries besides China. We haven't broken that out specifically, nor have we broken out the specific level of impact that we would expect, but obviously the world -- many companies are experiencing it.

The key takeaway, I think, should be that we're going to manage the margins through this period. The merchants have been in these situations before. We are going to maintain our price gaps with the market, but I think ultimately, it's a case-by-case situation, it is situations where we'll be able to take cost out to offset. So it's not a -- I can't describe in a really simple form for you, but I think what I want you to leave the call with is that we're going to be able to manage through it. And at the end of the day, when the consumer was stretched on the dollar, I think Walmart has been in a really good position to benefit from it given our everyday low prices.

Q - Gregory Melich

Looks great. And then last, if I could on Sam's. Just wanted to get a sense as to the trend in profit being down despite weaker comps. Could you help us understand when we might hit that inflection where a comp of three or better could actually mean operating profit was up?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So as you know, when John Furner started to head up that business, he made a lot of strategic decisions to different areas, one of which included price investment, included making investments in the member proposition. This quarter was -- we had some timing issues with bonus accruals that were -- probably added a bit more pressure than we would have typically expected, but If you look at the overall business, we're pleased with the membership trends. We're pleased with the comps. The gross margin excluding fuel was up 6 basis points that was helped by reduced tobacco volumes. There was some offset though from price investment, eCommerce fulfillment and shrink. On the SG&A side, it was really a lot about wages, severance to bonus accrual, timing.

Q - Gregory Melich

That's great. So that's -- the 43 basis points of increase in OpEx, a big chunk of that was the higher incentive comp. So like -- and it seems like it was -- I want to call it one-off or unusual, but it seems like that was particularly heavy this quarter and we should expect something more normal there going forward.

A - Dan Binder {BIO 1749900 <GO>}

That's a fair characterization, yes.

Q - Gregory Melich

Okay. Great, Dan. Thanks a lot.

A - Dan Binder {BIO 1749900 <GO>}

Sure.

Operator

The next question is from the line of Kelly Bania with BMO Capital. Please proceed with your questions.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, thanks for taking my question. Just wanted to ask a little bit about just prices. It seems like grocery inflation is pretty non-existent at least in the government data. And so I was curious if you could talk about what you're seeing there, if you're seeing any deflationary categories, and what you're seeing in the competitive environment. And as we think about next year, as maybe there's some more pressure from the tariffs, from some of the discretionary categories, is -- I guess do you think of it as an advantage to kind of maybe balance the two where there is maybe not some pressure on the food and grocery categories, but maybe some more on the other side? And I guess just how you're thinking about that into 2019.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So in terms of inflation, we did see some cost inflation in the food category, let's say, meat and dairy, more so, some produce, there were some offsets, but net-net, if you look at -- the retail inflation, that was pretty much non-existent. As I mentioned earlier, that was a function of price investment. So hopefully that adds some color. The -- I'm sorry, the second part of your question was whether or not we would take some of the tariff pressure through price increases in other parts of the store. Was that it?

Q - Kelly Bania {BIO 16685675 <GO>}

Yeah. Just as you kind of look at the cost pressures, it seems like there is more maybe on some of the discretionary categories and maybe less on the food and grocery side. I don't know if that's accurate, but do you think that you kind of look at balancing those across the categories or relative to some others that maybe are more in each category specifically and don't have that balance?

A - Dan Binder {BIO 1749900 <GO>}

So we would not take prices up in food to offset cost pressures in a category hit by tariffs, if that's -- if I understand your question correctly. So we're going to deal with those that are affected by -- the products that are affected by tariffs on a one-by-one basis -- on a each basis and we'll try and take cost out where we can. We're going to maintain price gaps at or better than current levels, and that's all I can really say at this point. We will manage margins around it though.

Q - Kelly Bania {BIO 16685675 <GO>}

Okay. That's very helpful. And as we think about the gross margin outlook into next year, I think the fuel and transportation and freight costs were one of the factors, and I guess with oil prices just coming down so much over the last several weeks, I was just curious how that -- or if that at all impacts the outlook for next year.

A - Dan Binder {BIO 1749900 <GO>}

Well, I'm not going to pretend to be able to predict oil prices, but certainly it has been a factor. I think certainly the driver shortage, the -- has been a bigger issue and the frame piece of it has been a problem too that continues to persist. So for the time being, we're anticipating continued transportation cost pressure.

Q - Kelly Bania {BIO 16685675 <GO>}

Thank you.

Operator

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

Q - Oliver Chen {BIO 15320650 <GO>}

Hi, thank you. Regarding the upcoming holiday and Black Friday, just open-ended ,what are some of the features that you think are more -- most incremental this year versus last year? The Check Out experience sounds very helpful. Will that be a material transaction driver? And then a question we're receiving from clients is the opportunity for the possibility of a Fulfilled by Walmart service. Is that something that's entirely possible? Are there any thoughts on your capabilities with respect to that potential just because it sounds like you've been making so much progress with fulfillment and also just implementing so many changes in your marketplace that have really helped drive results? Thank you.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So we had our press release out, I think, it was last week on Black Friday, and so you'll find a lot of what we're doing this year versus last year. Obviously, toys are a big focus this year. So we've got a lot of new toys both in-store, online, there's more space dedicated to it overall for the shopping period. As you highlighted, we've got Check Out with Me, we've got the Store Maps, we've got the new website designed this year, which we didn't have last year, so better online shopping experience; the overall assortment, I think, is more robust. So we feel really good about the position. And I think we'll come out on the other side being winners. So in terms of Fulfilled by Walmart, we have nothing new to announce today. So I really couldn't comment on speculation.

Q - Oliver Chen {BIO 15320650 <GO>}

Okay. And our last question is, just the eCom growth was so robust this quarter and your guidance for the full year is around 40%. Was there -- is there an opportunity to raise that? How are you thinking about next quarter and what you just printed? Because the momentum is on your side, and we just feel like the momentum is more likely to continue favorably. Thank you.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. Certainly we've seen a nice acceleration now three quarters in a row in that eCommerce growth rate. It's been helped by online grocery, it's been helped by a lot of things that we've done on the website, on the assortment, private brand pricing. I wouldn't point to any one thing, but there is momentum there. I think we are certainly against a good consumer backdrop that's helped, I'm sure, us and many other retailers, but if we had anything new in terms of the guidance, we would have said so [ph] today.

Q - Oliver Chen {BIO 15320650 <GO>}

Okay. And the dispensaries, somebody is asking me about those and we were impressed by the tests you've been doing there. Will those be in a position to roll out next year? Do you think it's something where you'll see net promoter scores at the same elite tiering as you have for curbside pickup? It really seems automated and seamless and you've made some really nice strides in what you demonstrated at the Investor Day.

A - Dan Binder {BIO 1749900 <GO>}

So the net promoter scores have been consistently strong for the online grocery experience both pickup, which is obviously more advanced in its rollout and delivery, but we're pleased with the customer response on both. Thanks, Oliver.

Operator

Thank you. (Operator Instructions) Our next question today will be coming from the line of Edward Kelly with Wells Fargo. Please go ahead with your question, sir.

Q - Edward Kelly {BIO 21274619 <GO>}

Hi. Good morning, guys.

A - Dan Binder {BIO 1749900 <GO>}

Good morning.

Q - Edward Kelly {BIO 21274619 <GO>}

I wanted to ask you about click-and-collect. Can you just talk about the impact click-and-collect has had on the grocery comp? I know eCommerce overall had about 140 basis points. It seems like maybe that could be more for grocery. Just thoughts there. And then how much of it -- click-and-collect do you think at this point is incremental?

A - Dan Binder {BIO 1749900 <GO>}

So the great thing about our grocery business is that there's so many different things that we're doing that are allowing us to take share and certainly online grocery as a service, on that's free if you pick up in store, which is a pretty compelling value proposition relative to the market, that's -- it's been additive. We haven't broken that out specifically, but we are confident that it's allowing us to gain share wallet with existing customers, but more -- also importantly, gain new customers, but we haven't broken that out specifically, but we think it's significant enough to mention.

Q - Edward Kelly {BIO 21274619 <GO>}

Maybe a different way, is there any reason to think that the benefit would be any different than what it is for the overall eCommerce benefit?

A - Dan Binder {BIO 1749900 <GO>}

So you're asking me if the contribution from online grocery to eCommerce?

Q - Edward Kelly {BIO 21274619 <GO>}

I am asking if the contribution from online grocery to the grocery comp, if that -- if there's any reason to think that it would be different than what eCommerce is driving for the overall company.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. I think they are two different -- that's two different analyses, but I can comfortably say it's -- online grocery is adding to both, but we've got grocery traffic in the stores as well. So it's not -- I don't think it's -- maybe the takeaway here is it's not cannibalizing us. We think a lot of that business as new business.

Q - Edward Kelly {BIO 21274619 <GO>}

Okay. Perfect. And then just as a follow-up on Flipkart, Dan, I don't know to the extent that you can talk about the management change that's happened there. Should we be concerned at all? Maybe any color on the strength of the bench within that business.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So obviously we're disappointed that the situation arose. You've probably at this point read a lot in the press and you've had our 8-K to refer to. We've taken actions to change the reporting structure and we feel good about the bench. I think it's really important that when you look at a company like Flipkart, when you get to that size and that level of complexity, it's not only about one person. So we've made the appropriate changes and outlined that in the 8-K. Probably I wouldn't say much more than that at this point, but we're committed to India. We still really love the business. We're going to continue to push forward, but we felt it was appropriate to make the changes we did.

Q - Edward Kelly {BIO 21274619 <GO>}

Thank you.

Operator

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

Q - Edward Yruma {BIO 4940857 <GO>}

Hey, thanks for taking the questions. I guess, first on the US stores gross margin line, you guys have done some changes to eCom changing minimum order sizes or how many of an item you need to purchase to get delivery. Have you been able, do you think, to moderate the eCom drag in the face of what are accelerating results? And then second, I think you guys are lapping in the fourth quarter the removal of the co-manager position in stores. I guess if you just step back broadly, do you think you're going to be able to continue to leverage in-store OpEx? Thanks.

A - Dan Binder {BIO 1749900 <GO>}

We don't comment a lot on margin rates in eCommerce, but we do like what we're seeing in the variable cost per unit. We were fairly clear, I think, at the investor meeting that there is work to do on mix, and probably not going to say much beyond that at this point. You've seen a lot of the smaller acquisitions we've made; you've seen the increasing SKU count over time. We talked about editing the SKUs online, I think, to the tune of 20 million, added 20 million, reduced, and so we're working towards the goal of improving the mix. And as I said, variable cost per unit is coming down. So that's good.

So I'm not sure if I would say much more than that at this point, but in terms of your other question on operating expense leverage, I think you said in the stores, there is still a lot to do. Stores are leveraging really well. You saw 28 basis points of expense leverage for Walmart U.S.; stores were even better. Obviously that number is affected by eCommerce when you look at it in total, but there is more to do, and I think some of that's going to come through some of the automation that you saw us put on display about a month ago.

Q - Edward Yruma {BIO 4940857 <GO>}

Great. Thanks so much.

Operator

The next question comes from the line of Kate McShane with Citi. Please proceed with your questions.

Q - Kate McShane {BIO 7542899 <GO>}

Hi, good morning. Thanks for taking our question. This question is kind of in the same vein as the previous question, but with regards to the Walmart U.S. store expenses and being able to leverage that, how much of that would you attribute to the US comp acceleration versus your own cost control initiatives?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So what you heard from us about a month ago was that the cost culture at Walmart is back. There is a -- everything from zero-based budgeting that we've been pursuing to just getting greater productivity out of associates with the use of technology, there is a lot of different things that we're going after. And it is also one of the levers that we can pull in different types of comp environments. I think Retail 101 would suggest if your comp gross from 3.5% down to 1%, you're going to have a lot of adjustments to make, but that's not what we're planning for. Certainly that's not what we're seeing in our business, but the things that we do control, we are doing well, I would say, and I think there is more runway in front of us to go after a lot of other items. I think you probably heard Brett talk about a list of 300 cost-cutting initiatives on his desk right now. That's -- it's a long list.

A - Unidentified Speaker

And the -- one thing I'd add to that is that the stores -- keep in mind that there was a wage rate increase at the beginning of this year. So they're delivering this amount of leverage despite the fact that there is incremental headwind. So Greg Foran and the team just continue to find new ways. A lot of that has to do with inventory management and the effectiveness there, as well as, as Dan mentioned, the automation that we're testing, we're finding new ways through automation as well as through process changes to be more efficient and it's billing [ph] us on the operating expense line.

Q - Kate McShane {BIO 7542899 <GO>}

Okay. Great. That's helpful. And I have an unrelated question, a little bit more specific. We noticed in your management comments that it was called out there is a meaningful price gap versus competitors in Canada.And I just wondered, is that how the competitive environment has been for some time and what is the thinking behind an eventual closing of that gap?

A - Dan Binder {BIO 1749900 <GO>}

Well, the price gaps are good. I mean, we've been investing in price in Canada as well, and you see that in various markets around the world where we're not only focused on omni-channel integration, but also improvements. So I think when we mention price gaps, it's more -- it's to the benefit that we are pleased with where we are and seem to expand it similar to the US.

Operator

Thank you. The next question comes from the line of Christopher Horvers with J.P. Morgan. Please proceed with your questions.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. Good morning, guys. So my first question is trying to diagnose the gross margin a little bit. So as you -- in light of having sort of that hurricane compare on the gross margin, I think it was about a third of the degradation last year, these storms seemed pretty small. So in light of that, what factor drove sort of like the incremental headwind on a year-over-year basis? Was it the price? Was it transportation costs getting worse, or was it the eCommerce impact becoming larger as that business has accelerated?

A - Dan Binder {BIO 1749900 <GO>}

So price investment has been pretty steady. Certainly, transportation has been a growing pressure through the year. Yeah, I wouldn't say the eCommerce impact was significantly different than last quarter. Hope that answers --

Q - Christopher Horvers {BIO 7499419 <GO>}

Okay. That's very helpful. And then the Home Depot yesterday or the other day made some commentary about, some bullish commentary about the upcoming tax refund season. I think they said that something like 60% of the benefit of tax reform is -- still lies ahead, and that's going to come through higher tax refunds year-over-year. Just curious, given your customer base, have you looked at that? How are you thinking about that internally? And is there any quantification or anyway you could help us think about it, that'd be great. Thanks very much.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. Sure. Well, obviously we pay a lot of attention to the macro factors. We think there has probably been a benefit this year already from tax reform, whether it's money directly in people's pockets or the business -- the stimulation in the economy. We're not economists. So we're not trying to set an economic forecast here, but we like the momentum in our business. And if tax refunds -- these tend to ebb and flow over the years, as you know. Some years, there's timing issues; other times, there's absolute benefits. Clearly if it's putting more money in the pockets of our customers, we would hope to get that share of it -- our fair share of it.

Operator

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

Q - Seth Sigman {BIO 17751557 <GO>}

Thanks. Hey, guys. Good morning. My first question just around the inventory growth. For Walmart U.S., seemed like comp store inventory was flat. I think that is a change in trend after being down for some time. Is there anything there related to tariffs or function of sales growth or anything else to highlight?

A - Dan Binder {BIO 1749900 <GO>}

We said we were positioned well for holiday and toy is a big focus this year, but there is more to do, I think. The level of improvement early on was significant because there was a lot of things that we're doing to pull inventory out of the backrooms. Obviously once you move further down that initiative, there is a diminishing return from that, but I think the goal of our team is to continue to get productivity out of our inventory up. I think in this particular quarter, as I mentioned earlier, there is some big opportunities this year that we're going after.

A - Unidentified Speaker

And there is strong sales growth. So the inventory management is still really effective.

Q - Seth Sigman {BIO 17751557 <GO>}

Right, understood. Okay. And then a follow-up question on the online growth, the 43%, a little bit better than last quarter. I know it's been asked a couple of different ways, but I'm curious more just directionally whether online grocery contributed more or less to that total online growth this quarter, I guess, relative to last quarter. I would just think more, given that you have more stores with online grocery. So any context on that. And then related, the stores that have online grocery for more than a year at this point, and I think you have an increasing number of those, just how are those performing relative to the base? Thanks.

A - Unidentified Speaker

So your first analysis seems pretty sound. There are more stores with more online grocery. So the contribution is higher. Your second question in terms of the stores that have had it for a longer period of time continued to improve and grow, but we haven't quantified what that maturity curve looks like exactly.

A - Dan Binder {BIO 1749900 <GO>}

NPS scores continue to remain really high for that initiative.

Q - Seth Sigman {BIO 17751557 <GO>}

Thank you.

Operator

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

Q - Charles Grom {BIO 1450381 <GO>}

Hey, thanks. Good morning, everybody. Just on the eCommerce side of the business, Danny, in the script, you guys talked about improving the margin profile. I was just wondering if you could amplify on that for us in terms of the opportunity, how long you think it's going to take, what do you think needs to get done.

A - Dan Binder {BIO 1749900 <GO>}

So the margin profile is a function obviously of two things. One, what you're selling, and two, how you distribute it, and we're working on both. We've got sort of the head of the assortment that we're focused on with the rollout of online grocery, the tail of the assortment that we're focused on as we add sellers to the base, get a more robust set of SKUs, and make these small acquisitions in both digitally native brands as well as vertical brands as well as specialty retailers. And we like the direction, but there is more work to do and we just haven't laid out a specific margin profile by quarter. So -- I don't know if that helps at all, but there is a lot of work going on on both sides.

Q - Charles Grom {BIO 1450381 <GO>}

Okay, great. And then -- I apologize if you answered this already, Dan, but I hopped on late. The Flipkart dilution here, is it still expected to be $0.25? And then my second follow-up would be the cadence of the comp and traffic throughout the third quarter. Thanks.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So $0.25 is the last guidance we gave you. That hasn't changed today. So that's -- nothing more to really say there. In terms of the cadence of the quarter, I mentioned earlier that we started the quarter strong with back-to-school, really wrapped up that season with solid results as we progressed through the quarter, a great fall seasonal sales relating to Halloween. So really happy with the cadence of the quarter overall.

Operator

Thank you. The next question is from the line of Chris Mandeville with Jefferies. Please proceed with your questions.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Hey, good morning.

A - Dan Binder {BIO 1749900 <GO>}

Hi, good morning.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Dan, how are you feeling on pricing relative to peers at Sam's, just based on the ticket, it would appear as though you maybe accelerated some of your investments in the quarter, while traffic seemed relatively consistent on both the one and two-year basis, but I guess -- I suppose maybe some of that was related to the shift from closed stores. So as we progress into calendar ' 19, how should we thinking -- how should we be thinking about that level of price investment going forward and what are your kind of early reads from a returns basis?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So the ticket is affected by many things, certainly some price investment, but I think the lower sales of tobacco are affecting it, and we're also seeing more frequent trips with Scan & Go, so a little more traffic, but maybe a little bit lower ticket on each of those trips. So there is -- we haven't broken it out to the basis point, but those are some of the factors that we're seeing.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Sorry, but just in terms of also the level on price investment, how do you guys feel in terms of your price gap today at Sam's versus competition?

A - Dan Binder {BIO 1749900 <GO>}

So well, we make price investments in different parts of the country, different categories. Similar to Walmart, we wouldn't break that out, but it's something that we like the results from in terms of what we see with retention and membership trends and comps et cetera, sales. So it's something -- it's work in progress, to answer your question.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Sorry, what was that?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. It's work in progress.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Got it. Okay. And then my follow-up would be just in terms of China, you guys saw some solid improvement sequentially on really the overall two year as well as in traffic. So any ability to speak to the contribution from that omni-channel event, you referred to that took place in August?

A - Dan Binder {BIO 1749900 <GO>}

Overall, we've been pleased with the results in China. As you've seen, it's been an economy that has seen some slowdown in GDP and it's a very competitive market obviously, but the dot-com business, the flagship stores on JD.com are doing well. We're pleased with the overall execution. I'm not sure I'd say much more than that, but moving in the right direction.

Operator

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

Q - Robert Ohmes {BIO 1541955 <GO>}

Hey, Dan. I had a follow-up question on the dot-com's growth. So for the fourth quarter, last year going into the fourth quarter, you guys had amazing dot-com momentum, and then in the fourth quarter, eCommerce only grew 23% in the US. And can you just remind us what happened last year and then how we think about that as a comparison this year or sort of what's different this year, where you wouldn't see that kind of drop off? Because I think to get to the close to 40% for the year, it kind of has to be close to 40%, I think, for the fourth quarter. So it would be kind of similar trends, but last year, the trends were kind of cut in half.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So last year, we highlighted that there are two primary issues. One of the bigger ones was the promotional position we took year-over-year. So we basically lapped that and our philosophy around that issue hasn't changed. So the other issue was capacity. We feel good about our capacity and our inventory position today. So I think we're in good shape.

A - Kary Brunner {BIO 20114316 <GO>}

And keep in mind, Robbie, last year we left the Jet acquisition as well. So sequentially that's where it slowed down.

Q - Robert Ohmes {BIO 1541955 <GO>}

So we should think of it as an easy comparison, not a -- it's tougher to drive momentum in the fourth quarter?

A - Dan Binder {BIO 1749900 <GO>}

Well, if you break it apart, right. So we're not going to -- we've already lapped Jet. So that's not -- that was part of the drop, as Kary just highlighted. The other piece was position on promotion, which hasn't changed. So that's not really an easy comparison either. The only piece that you would maybe characterize as maybe being easy would be the capacity issue, which I think we've addressed.

Q - Robert Ohmes {BIO 1541955 <GO>}

Got it. That's helpful. Thanks, guys.

Operator

The next question comes from the line of Scott Mushkin with Wolfe Research. Please proceed with your questions.

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey guys, thanks for taking my questions. So I guess the first thing I wanted to understand a little bit, I think, at the meeting, Greg talked about competition getting a little bit more intense. It seems as I look at your fourth quarter, you guys have left room potentially to get a little bit more aggressive on price and we've certainly seen competitors in consumables get more aggressive mainly. So I just wanted to see what -- how we should look at the fourth quarter for, specifically on the (inaudible) and how able are you to react if the environment gets more competitive or continues to be more competitive, as Greg talked about?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So it varies by market. I think when I look at our forecast, while we don't break out margins and SG&A specifically, I think there is -- as I mentioned earlier, there has been a very consistent approach to price investment, and I think that systematic approach has produced results that we've been pleased with, and I wouldn't expect that to change in Q4. We're obviously going to be very aware of what's going on in the market. We have lots of people dedicated to pricing. And as we've said in the past and nothing changes today in my comments that we will maintain price gaps and we will be EDLP. We're finding, as you've seen in the numbers, the offsets in expenses to help fund that and that really starts to get the definition at the productivity level, get the cost out, drive prices down, drive sales and then do it all over again.

Q - Scott Mushkin {BIO 7138867 <GO>}

All right. So then my follow-up question goes to the Club Sam's. You have a competitor in the marketplace offering free memberships. Wondering if you guys have seen any kind of impact from that. And is that something you guys would consider or are you doing it as well?

A - Dan Binder {BIO 1749900 <GO>}

No, we have -- we haven't seen any discernible impact. We're pretty pleased with our membership sign-ups and overall improvement in membership trends. Certainly some of that's been helped by the Plus membership penetration moving higher, which has been in part a function of a lot of things going on inside the Club to make it an attractive place to shop, but also the value proposition around free shipping with Plus membership, but no, I think, we're executing to the plan and it's as we expected.

Operator

Thank you. The next question will be coming from the line of Michael Lasser with UBS. Please proceed with your questions.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning. Thanks a lot for taking my question. If we trend out your eCommerce growth on a two-year stack basis, in the fourth quarter, it would imply you're going to grow 70%. It seems like what you're saying is because you're not going to be as promotional, we should not be modeling something less than 70%. So, A, is that fair? And when you say you're going to be less promotional, is that alluding to the fact that you are requiring a $35 minimum threshold purchase for free shipping whereas Amazon and Target are requiring no minimum threshold for free shipping?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. So my comments around promotion are not related to this year specifically. I was just highlighting that last year -- well, if you think about holiday 2016, there were some promotional events that we did not repeat in '17. Here we are in '18 and we are growing the business; we're aggressive. You can do the price comparisons, we're on a basket. We are lower than many of our competitors on the basket, many of the big ones, and we're happy with that position. We're getting the results we want at the top line and our 40% guidance or around 40% guidance for the full year implies something in that range of, call it, low to mid-40% type growth in Q4. You can do that math right. So it's fairly, I think, clear at this point how we think about Q4 growth in eCommerce.

Q - Michael Lasser {BIO 7266130 <GO>}

Yeah, I guess the reason why -- trying to understand the reason why it's going to go much low on a two-year stack basis, because you have anniversaried the Jet acquisition for the last three quarters, so that's going to be fully embedded in the two-year stack. Is it also because a lot of your growth or some substantial portion of your growth has come from the online grocery pickup and that becomes less meaningful as a portion of the mix in the fourth quarter?

A - Dan Binder {BIO 1749900 <GO>}

So grocery is a smaller percentage of sales of total versus the other quarters simply because it's the holiday quarter and -- but it continues to contribute strongly to the overall eCommerce business.

Operator

Thank you. Your next question will be coming from the line of Budd Bugatch with Raymond James. Please proceed with your questions.

Q - Budd Bugatch {BIO 1504748 <GO>}

Good morning and thank you for taking my question as well. A lot of my questions have been answered, but you used to disclose the average wage per hour in the US, and obviously with a lot of the moving parts and the wage increases, can you disclose that number anymore, what that average is in the US?

A - Dan Binder {BIO 1749900 <GO>}

Yeah. I mean, the starting wages is, as you know, is $11 an hour and the average, I think, is $13.5,somewhere around there for US stores and of course DCs will be higher than that.

Q - Budd Bugatch {BIO 1504748 <GO>}

Okay. Thank you. And my follow-up is -- relates to some of the pretty sophisticated applications you have in the stores both in Walmart U.S. and in Sam's. When I am in the stores and use Walmart Pay, I always ask the people at the register if people use it, and I get very, very rare usage of things like Walmart Pay. Can you talk about the usage of Walmart Pay and maybe even Scan & Go in Sam's and maybe what kind of increases you've seen in the penetration of the usage of those apps?

A - Dan Binder {BIO 1749900 <GO>}

So Scan & Go has been a really popular app actually at Sam's Club. I spoke a little bit to how we think it's impacting our traffic numbers and ticket numbers, great response from customers on that. And so we're really pleased with the ramp up in Scan & Go. In terms of Walmart Pay in the Walmart stores, that's also growing, but we haven't broken out the specific stats around it.

A - Kary Brunner {BIO 20114316 <GO>}

These are all these areas, Budd, of increasing the level convenience for a customer, and as they choose to shop with us, they have choice in how they do that. And so as Dan mentioned, we're pleased with the Walmart Pay trends and we would only expect that to grow.

Q - Budd Bugatch {BIO 1504748 <GO>}

I certainly hope so, Kary, because I really look forward to -- when I'm in the stores and I'm in the stores a fair amount, and I just don't see the -- a reasonably decent usage of it. So --

A - Kary Brunner {BIO 20114316 <GO>}

It's incredibly ease to use. So I think as customers -- as there continue to be more communications around it and signage and advertising and so forth, yeah, I think once you convert a customer to Walmart Pay, they really like it. it makes it very simple.

A - Unidentified Speaker

I think there is also Google Pay.

A - Dan Binder {BIO 1749900 <GO>}

I'd also think that as we add more features to the app and draw more people to download the app, that should help our adoption rates of Walmart Pay.

Q - Budd Bugatch {BIO 1504748 <GO>}

All right. Thank you very much.

A - Kary Brunner {BIO 20114316 <GO>}

Sure.

Operator

The next question comes from the line of Joseph Feldman with Telsey Advisory Group. Please proceed with your questions.

Q - Joe Feldman {BIO 4772233 <GO>}

Yeah. Hey guys. Thanks for taking me. I had a couple of quick ones. With Sam's Club, the traffic was up a lot, and I know some of it may just be the transfer from the stores that were closed, but is there anything else driving that big 6.2% traffic number?

A - Dan Binder {BIO 1749900 <GO>}

So the traffic, as I mentioned earlier, there is a lot of pieces that go into that, but closed Clubs obviously is significant this quarter until we lap that event, but we're also getting more frequent visits with the Scan & Go, people -- just the behavior of the member changes there. So that would probably be the other big call-out that I would make.

Q - Joe Feldman {BIO 4772233 <GO>}

Got it. Thanks. And then one other one was with Sears going away or -- and sort of it may sound unrelated, but like even the wildfires, like those kind of exogenous pressures or factors, are you seeing any impact from them or maybe transfer sales or things that you're doing to help in the -- like the welfare community? So kind of a two-part question there. Thanks.

A - Dan Binder {BIO 1749900 <GO>}

No, I haven't seen anything specific on -- as it relates to the fires. I mean, it's one small part of the country. We obviously have our store base. It would have to be pretty monumental to have a major impact. Not -- that's not a monumental event. It's obviously terrible, but there is nothing specific that I would speak to you on that today. I think the other part of your question was around Sears, but there is a lot of retailers out there that are struggling and we pay less attention to what they're doing; a lot more on what we're doing and what we can control, and market share is going to flow. Obviously, the big focus for us in the near term is the toy business just given what's happened in the retail landscape in that particular category, but -- we are in the market every day, every week, every month getting better. It's getting better on price, getting better on private brand, getting better on assortments on store level, shopability, experience of the customers. So as long as we're doing those things, I think we're going to be able to take share from a lot -- in a lot of different places.

Q - Joe Feldman {BIO 4772233 <GO>}

Got it. Thanks, Dan. Thanks guys.

Operator

Thank you. The next question is from the line of Scot Ciccarelli with RBC Capital Markets. Please proceed with your questions.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good morning, guys. Thanks for fitting me in here. Dan, earlier in the call, I think you mentioned some of the drivers to your average ticket growth and you seemed to highlight both eCommerce penetration as well as fresh. Are there any other big contributors to the average ticket you've experienced in the -- increase you've experienced in the last few quarters or are those two factors really about the lion's share?

A - Dan Binder {BIO 1749900 <GO>}

We've seen some good general merchandise growth last quarter. As you recall, we have some seasonal benefits that we got from the way the weather broke, and certainly this quarter, we've seen really good strength in the apparel business, the toy business, automotive. So these tend to be higher ticket categories, and I think that mix of businesses helped us as well.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got you. And when you look at your eCommerce contribution, the 140 basis points that you highlighted, does that have a bigger impact on traffic or ticket?

A - Dan Binder {BIO 1749900 <GO>}

Traffic, but ticket as well because you're getting a higher ticket on eCommerce. So I wouldn't necessarily try and break that out here today.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay. Understood. All right. Thanks, guys.

Operator

Our next question comes from the line of Ben Bienvenu with Stephens. Please proceed with your questions.

Q - Ben Bienvenu {BIO 18962123 <GO>}

Hey, good morning, everybody. I wanted to ask about the receivables. How much of that decline year-over-year has been driven by Brazil and how much of it is sustainable as we lap over that? Should we expect receivables to begin growing again as we move out of 2019?

A - Dan Binder {BIO 1749900 <GO>}

Certainly, Brazil and Flipkart play a role in that as well as FX. So we don't break out the specifics, but those are the three pieces that have had an impact. Flipkart is adding; Brazil detracting; FX detracting, but there is nothing -- when I look at the underlying numbers, there's nothing unusual or concerning.

Q - Ben Bienvenu {BIO 18962123 <GO>}

Okay. And then on the International inventory, for the last several quarters, you guys have been growing inventory at a slower rate than sales. You had partial contribution of sales from Flipkart for this quarter. Is it reasonable to assume that with a full quarter's contribution of Flipkart sales that that trends you've seen in the past should sustain inventory growing at slower rate than sales?

A - Dan Binder {BIO 1749900 <GO>}

So yes, inventory obviously being a snapshot in time as relative to our sales would be a little bit out of line or misaligned. So yeah, the next quarter, you should start to see more normal trends, but we don't predict specifically or forecast inventory levels for the business overall, never mind International. You can -- it's fair to say that inventory is, it's a focus around the globe. We've made good progress as a company. So I'd just leave that as a takeaway.

A - Unidentified Speaker

And FX has an impact on that line as well. So --

Q - Ben Bienvenu {BIO 18962123 <GO>}

Understood. Thanks guys.

Operator

The next question is from the line of Rupesh Parikh with Oppenheimer. Please proceed with your questions.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Good morning. Thanks for taking my questions. So on your free shipping threshold, so clearly Amazon recently removed it for the holiday season. So I was just curious how you guys feel about your -- the competitiveness of your offering in light of their actions.

A - Dan Binder {BIO 1749900 <GO>}

Sure. So we feel good about the offering. We feel good about our price points. We feel good about our price gaps on the full basket and there is nothing to announce today on shipping.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay, great. And then there wasn't commentary this quarter on the consumer electronics category. So I was curious how that performed for the Walmart U.S. segment.

A - Kary Brunner {BIO 20114316 <GO>}

We had broad-based strength in general merchandise. I mean, electronics didn't pop up at the top of the list this quarter, but we did see strength in areas like mobile, for example. We're pleased with the TV business. We've certainly seen -- we've moved with the market shifting towards larger screen sizes. We've gotten better assorted in connected home. So we feel pretty good about the direction of that business both from a merchandising perspective and sales perspective overall.

A - Dan Binder {BIO 1749900 <GO>}

Yeah. Gaming had a good quarter as well and we showed off some of the new innovation we have there with the Arcade Games, you might have seen it in October when you were here. That, amongst a number of other new offerings, are really driving that business. Pleased with that.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Great. Thank you.

Operator

Thank you. Our final question today comes from the line of Mark Astrachan with Stifel. Please proceed with your questions.

Q - Mark Astrachan {BIO 15313233 <GO>}

Yeah. Thanks and good morning everybody. I'm -- wanted to go back to traffic in the US and trying to understand how it flowed through from a US grocery standpoint. So ticket was roughly constant and overall grocery comp was even at the high end of low single digits. Is it fair to assume there was some moderation in traffic sequentially in terms of contribution to comp?

A - Dan Binder {BIO 1749900 <GO>}

Traffic moderated largely because of the comparison to last year's hurricanes. We had hurricanes this quarter, but not as significant as last quarter -- last year. But overall we are pleased with what we are seeing in the broader traffic trends. And if you look at the two-year stacks on traffic over the last few quarters, you can see really over the last actually four to eight quarters, you can see a nice progression, and I would say on a two-year stack basis, there was nothing -- we were pleased with what we saw.

Q - Mark Astrachan {BIO 15313233 <GO>}

Okay. One last housekeeping question. So on interest expense, debt balance up in the quarter. Is there anything exceptional we should know in trying to model that from a floating versus fixed rate standpoint?

A - Dan Binder {BIO 1749900 <GO>}

So we do have some lower interest rate debt that helps, and we had the Flipkart piece in there, and I think there may have been -- any other factors? I'm just trying to think.

A - Kary Brunner {BIO 20114316 <GO>}

These are the main ones.

Q - Mark Astrachan {BIO 15313233 <GO>}

Okay. Thank you.

A - Dan Binder {BIO 1749900 <GO>}

Okay.

Operator

Thank you. I will hand the floor back to management for closing remarks.

A - Dan Binder {BIO 1749900 <GO>}

Great. Well, we appreciate the time. We went a little bit over. I just wanted to make sure we fit everybody in. In closing, we are really pleased with the Q3 results. We have good momentum in the business. We feel good about our competitive position headed into the holiday season, and we are positioned to win. The IR team here at Walmart along with our executives wish you all a happy and safe holiday season, and have a great day. Thanks.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.